First Savings Financial Group Inc
Form 10-K
December 14, 2018
`

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2018

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____________ to _____________

Commission File Number: **1-34155**

FIRST SAVINGS FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Indiana (State or other jurisdiction of incorporation or organization)	**37-1567871** (I.R.S. Employer Identification No.)
501 East Lewis & Clark Parkway, Clarksville, Indiana (Address of principal executive offices)	**47129** (Zip Code)

Registrant's telephone number, including area code: **(812) 283-0724**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share (Title of each class)	**NASDAQ Stock Market, LLC** (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, small reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ¨	Accelerated Filer x
Non-accelerated Filer ¨	Smaller Reporting Company x
Emerging Growth Company ¨	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by nonaffiliates was $124.0 million, based upon the closing price of $69.50 per share as quoted on the NASDAQ Stock Market as of the last business day of the registrant's most recently completed second fiscal quarter ended March 31, 2018.

The number of shares outstanding of the registrant's common stock as of December 10, 2018 was 2,300,810.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2019 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

INDEX

1

This annual report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of First Savings Financial Group, Inc. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. First Savings Financial Group's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of First Savings Financial Group and its subsidiary include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in First Savings Financial Group's market area, changes in real estate market values in First Savings Financial Group's market area, changes in relevant accounting principles and guidelines and inability of third party service providers to perform. Additional factors that may affect our results are discussed in Item 1A to this Annual Report on Form 10-K titled "Risk Factors" below.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, First Savings Financial Group does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events, except as may be required by applicable law or regulation.

Unless the context indicates otherwise, all references in this annual report to "First Savings Financial Group," "Company," "we," "us" and "our" refer to First Savings Financial Group and its subsidiaries.

PART I

Item 1. BUSINESS

General

First Savings Financial Group, Inc., an Indiana corporation, was incorporated in May 2008 and serves as the holding company for First Savings Bank (the "Bank" or "First Savings Bank"). First Savings Financial Group's principal business activity is the ownership of the outstanding common stock of First Savings Bank. First Savings Financial Group does not own or lease any property but instead uses the premises, equipment and other property of First Savings Bank with the payment of appropriate rental fees, as required by applicable law and regulations, under the terms of an expense allocation agreement. Accordingly, the information set forth in this annual report including the consolidated financial statements and related financial data contained herein, relates primarily to the Bank.

First Savings Bank converted from a federally-chartered savings bank to an Indiana-chartered commercial bank and became a member the Federal Reserve System effective December 19, 2014. As a result of the Bank's charter conversion, First Savings Financial Group converted to a bank holding company and simultaneously elected financial holding company status effective December 19, 2014.

On February 9, 2018, the Company acquired Dearmin Bancorp, Inc. ("Dearmin") and its majority owned subsidiary, The First National Bank of Odon ("FNBO"), a full service community bank located in Odon, Indiana. The acquisition expanded the Company's presence into Daviess County, Indiana. See Note 2 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report.

First Savings Bank operates as a community-oriented financial institution offering traditional financial services to consumers and businesses in its primary market area. We attract deposits from the general public and use those funds to originate primarily residential and commercial mortgage loans. We also originate commercial business loans, residential and commercial construction loans, multi-family loans, land and land development loans, and consumer loans. We conduct our lending and deposit activities primarily with individuals and small businesses in our primary market area, except as otherwise discussed herein.

Our website address is www.fsbbank.net. Information on our website is not, and should not be considered a part of, this annual report.

Market Area

We are located in South Central Indiana along the axis of Interstate 65 and Interstate 64, directly across the Ohio River from Louisville, Kentucky. We consider Clark, Floyd, Harrison, Crawford, Washington and Daviess counties, Indiana, in which all of our offices are located, and the surrounding areas to be our primary market area. The current top employment sectors in these counties are the private retail, service and manufacturing industries, which are likely to continue to be supported by the projected growth in population and median household income. These counties are well-served by barge transportation, rail service, and commercial and general aviation services, including the United Parcel Service's major hub, which are located in our primary market area.

Competition

We face significant competition for the attraction of deposits and origination of loans. Our most direct competition for deposits has historically come from the several financial institutions operating in our primary market area and from other financial service companies such as securities and mortgage brokerage firms, credit unions and insurance companies. We also face competition for investors' funds from money market funds, mutual funds and other corporate and government securities. At June 30, 2018, which is the most recent date for which data is available from the Federal Deposit Insurance Corporation ("FDIC"), we held approximately 16.27%, 3.06%, 36.57%, 100.00%, 17.09% and 17.16% of the FDIC-insured deposits in Clark, Floyd, Harrison, Crawford, Washington and Daviess, Counties, Indiana, respectively. This data does not reflect deposits held by credit unions with which we also compete. In addition, banks owned by large national and regional holding companies and other community-based banks also operate in our primary market area. Some of these institutions are larger than us and, therefore, may have greater resources.

Our competition for loans comes primarily from financial institutions in our primary market area and from other financial service providers, such as mortgage companies, mortgage brokers and credit unions. Competition for loans also comes from non-depository financial service companies entering the mortgage market, such as insurance companies, securities companies, and specialty and captive finance companies.

We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered barriers to entry, allowing banks to expand their geographic reach by providing services over the Internet, and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Changes in federal law now permit affiliation among banks, securities firms and insurance companies, which promotes a competitive environment in the financial services industry. Competition for deposits and the origination of loans could limit our growth in the future.

Lending Activities

Consistent with the Bank's conversion to an Indiana-chartered commercial bank in December 2014, the Bank is continuing the process of transforming the composition of its balance sheet from that of a traditional thrift institution to that of a commercial bank. We intend to continue to emphasize residential lending, primarily secured by owner-occupied properties, but also to continue concentrating on ways to expand our consumer/retail banking capabilities and our commercial banking services with a focus on serving small businesses and emphasizing relationship banking in our primary market area.

The largest segments of our loan portfolio are commercial real estate loans and residential real estate mortgage loans, which are primarily one- to four-family residential loans, and, to a lesser extent, multi-family real estate and commercial business loans. We also originate residential and commercial construction loans, land and land development loans, and consumer loans. We generally originate loans for investment purposes, although, depending on the interest rate environment and our asset/liability management goals, we may sell into the secondary market the 25-year and 30-year fixed-rate residential mortgage loans that we originate, as well as the portion of loans guaranteed by the U.S. Small Business Administration ("SBA") that we originate under its 7(a) program. We do not offer, have not offered and have not purchased or acquired Alt-A, sub-prime or no-documentation loans.

One- to Four-Family Residential Loans. Our origination of residential mortgage loans enables borrowers to purchase or refinance existing homes located in Clark, Floyd, Harrison, Crawford, Washington and Daviess Counties, Indiana, and the surrounding areas.

Our residential lending policies and procedures conform to the secondary market guidelines. We generally offer a mix of adjustable-rate mortgage loans and fixed-rate mortgage loans with terms of 10 to 30 years. Borrower demand for adjustable-rate loans compared to fixed-rate loans is a function of the level of interest rates, the expectations of changes in the level of interest rates, and the difference between the interest rates and loan fees offered for fixed-rate mortgage loans as compared to an initially discounted interest rate and loan fees for multi-year adjustable-rate mortgages. The relative amount of fixed-rate mortgage loans and adjustable-rate mortgage loans that can be originated at any time is largely determined by the demand for each in a competitive environment. The loan fees, interest rates and other provisions of mortgage loans are determined by us based on our own pricing criteria and competitive market conditions.

Interest rates and payments on our adjustable-rate mortgage loans generally adjust annually after an initial fixed period that typically ranges from one to five years. Interest rates and payments on our adjustable-rate loans generally are adjusted to a rate typically equal to a margin above the one year U.S. Treasury index. The maximum amount by which the interest rate may be increased or decreased is generally one percentage point per adjustment period and the lifetime interest rate cap is generally six percentage points over the initial interest rate of the loan. However, a portion of the adjustable-rate mortgage loan portfolio has a maximum amount by which the interest rate may be increased or decreased of two percentage points per adjustment period and a lifetime interest rate cap generally of six percentage points over the initial interest rate of the loan.

While one- to four-family residential real estate loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full either upon sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans on a regular basis. We do not offer loans with negative amortization and generally do not offer interest-only loans.

We generally do not make conventional loans with loan-to-value ratios exceeding 80%, including that for non-owner occupied residential real estate loans whose loan-to-value ratios generally may not exceed 75%, or 65% where the borrower has more than five non-owner occupied loans outstanding. Loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance. However, the total balance of residential mortgage loans secured by one-to-four family residential properties with loan-to-value ratios exceeding 90% amounted to $19.0 million, of which some do not have private mortgage insurance or government guaranty. We generally require all properties securing mortgage loans to be appraised by a board-approved independent appraiser. We also generally require title insurance on all first mortgage loans with principal balances of $250,000 or more. Borrowers must obtain hazard insurance, and flood insurance is required for all loans located in flood hazard areas.

Commercial Real Estate Loans. We offer fixed and adjustable-rate mortgage loans secured by commercial real estate. Our commercial real estate loans are generally secured by small to moderately-sized office, retail and industrial properties located in our primary market area and are typically made to small business owners and professionals such as attorneys and accountants.

We originate fixed-rate commercial real estate loans, generally with terms up to five years and payments based on an amortization schedule of 15 to 20 years, resulting in “balloon” balances at maturity. We also offer adjustable-rate commercial real estate loans, generally with terms up to five years and with interest rates typically equal to a margin above the prime lending rate or the London Interbank Offered Rate (LIBOR). Loans are secured by first mortgages, generally are originated with a maximum loan-to-value ratio of 80% and often require specified debt service coverage ratios depending on the characteristics of the project. Rates and other terms on such loans generally depend on our assessment of credit risk after considering such factors as the borrower’s financial condition and credit history, loan-to-value ratio, debt service coverage ratio and other factors.

During 2013, we began a commercial real estate lending program that is focused on loans to high net worth individuals that are secured by low loan-to-value, single-tenant commercial properties that are generally leased to investment grade national-brand retailers, the borrowers and collateral properties for which are outside of our primary market area. This program is designed to diversify the Company's geographic and credit risk profile given the geographic dispersion of the loans and collateral, and the investment grade credit of the national-brand lessees. The terms of the loans are generally consistent with the aforementioned terms of in-market commercial real estate loans; however, these cannot exceed 70% loan-to-value and loan maturities cannot exceed the expiration of the underlying leases. In addition, the Company has established guidelines with respect to concentrations by state, lessee and industry of lessees as a percent of regulatory capital. The average size of these loans originated was $1.2 million and the portfolio balance was $168.5 million at September 30, 2018.

Construction Loans. We originate construction loans for one to four family homes and commercial properties such as small industrial buildings, warehouses, retail shops and office units. Construction loans, including speculative construction loans to builders who have not identified a buyer or lessee for the completed property at the time of origination, are made to a limited group of well-established builders in our primary market area and we limit the number of projects with each builder. Construction loans are typically for a term of 12 months with monthly interest only payments and interest rates on these loans are generally tied to the prime lending rate. Except for speculative construction loans, repayment of construction loans typically comes from the proceeds of a permanent mortgage loan for which a commitment is typically in place when the construction loan is originated. Occasionally, a speculative construction loan may be converted to a permanent loan if the builder has not secured a buyer within a limited period of time after the completion of the home. We also offer construction loans for the financing of pre-sold homes, which convert into permanent loans at the end of the construction period. Such loans generally have a six month construction period with interest only payments due monthly, followed by an automatic conversion to a 15 year to 30 year permanent loan with monthly payments of principal and interest. Construction loans, other than land development loans, generally will not exceed the lesser of 80% of the appraised value or 90% of the direct costs, excluding items such as developer fees, operating deficits or other items that do not relate to the direct development of the project. We require a maximum loan-to-value ratio of 80% for speculative construction loans. Generally, commercial construction loans require the personal guarantee of the owners of the business. We generally disburse funds on a percentage-of-completion basis following an inspection by a third party inspector.

Land and Land Development Loans. On a limited basis, we originate loans to developers for the purpose of developing vacant land in our primary market area, typically for residential subdivisions. Land development loans are generally interest-only loans for a term of 18 to 24 months. We generally require a maximum loan-to-value ratio of 75% of the appraisal market value upon completion of the project. We generally do not require any cash equity from the borrower if there is sufficient indicated equity in the collateral property. Development plats and cost verification documents are required from borrowers before approving and closing the loan. Our loan officers are required to personally visit the proposed development site and the sites of competing developments. We also originate loans to individuals secured by undeveloped land held for investment purposes.

Multi-Family Real Estate Loans. We offer multi-family mortgage loans that are generally secured by properties in our primary market area. Multi-family loans are secured by first mortgages and generally are originated with a maximum loan-to-value ratio of 80% and generally require specified debt service coverage ratios depending on the characteristics of the project. Rates and other terms on such loans generally depend on our assessment of the credit risk after considering such factors as the borrower's financial condition and credit history, loan-to-value ratio, debt service coverage ratio and other factors.

Consumer Loans. Although we offer a variety of consumer loans, our consumer loan portfolio consists primarily of home equity loans, both fixed rate amortizing term loans with terms up to 15 years and adjustable rate lines of credit with interest rates equal to a margin above the prime lending rate. We also offer auto and truck loans, personal loans and small boat loans. Consumer loans typically have shorter maturities and higher interest rates than traditional one-to four-family lending. We typically do not make home equity loans with loan-to-value ratios exceeding 90%, including any first mortgage loan balance. The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although the applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

Commercial Business Loans. We typically offer commercial business loans to small businesses located in our primary market area. Commercial business loans are generally secured by equipment and general business assets. Key loan terms and covenants vary depending on the collateral, the borrower's financial condition, credit history and other relevant factors, and personal guarantees are typically required as part of the loan commitment.

Loan Underwriting Risks

Adjustable Rate Loans. While we anticipate that adjustable rate loans will better offset the adverse effects of an increase in interest rates as compared to fixed rate mortgages, an increased monthly mortgage payment required of adjustable rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans make our asset base more responsive to changes in interest rates, the extent of this interest sensitivity is limited by the annual and lifetime interest rate adjustment limits.

Non-Owner Occupied Residential Real Estate Loans. Loans secured by rental properties represent a unique credit risk to us and, as a result, we adhere to special underwriting guidelines. Of primary concern in non-owner occupied real estate lending is the consistency of rental income of the property. Payments on loans secured by rental properties often depend on the maintenance of the property and the payment of rent by its tenants. Payments on loans secured by rental properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. To monitor cash flows on rental properties, we require borrowers and loan guarantors, if any, to provide annual financial statements and we consider and review a rental income cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property. We generally require collateral on these loans to be a first mortgage along with an assignment of rents and leases. If the borrower holds loans on more than four rental properties, a loan officer or collection officer is generally required to inspect these properties annually to determine if they are being properly maintained and rented. We have generally limited these loan relationships to an aggregate total of $500,000.

Multi-Family and Commercial Real Estate Loans. Loans secured by multi-family and commercial real estate generally have larger balances and involve a greater degree of risk than one to four family residential mortgage loans. Of primary concern in multi-family and commercial real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we require borrowers and loan guarantors, if any, to provide annual financial statements on multi-family and commercial real estate loans. In addition, some loans may contain covenants regarding ongoing cash flow coverage requirements. In reaching a decision on whether to make a multi-family or commercial real estate loan, we consider and review a global cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property. An environmental survey or environmental risk insurance is obtained when the possibility exists that hazardous materials may have existed on the site, or the site may have been impacted by adjoining properties that handled hazardous materials.

Construction and Land and Land Development Loans. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the building. If the estimate of value proves to be inaccurate, we may be confronted, at or before the maturity of the loan, with a building having a value which is insufficient to assure full repayment if liquidation is required. If we are forced to foreclose on a building before or at completion due to a default, we may be unable to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. In addition, speculative construction loans, which are loans made to home builders who, at the time of loan origination, have not yet secured an end buyer for the home under construction, typically carry higher risks than those associated with traditional construction loans. These increased risks arise because of the risk that there will be inadequate demand to ensure the sale of the property within an acceptable time. As a result, in addition to the risks associated with traditional construction loans, speculative construction loans carry the added risk that the builder will have to pay the property taxes and other carrying costs of the property until an end buyer is found. Land and land development loans have substantially similar risks to speculative construction loans.

Consumer Loans. Consumer loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are secured by assets that depreciate rapidly, such as motor vehicles and boats. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and a small remaining deficiency often does not warrant further substantial collection efforts against the borrower. In the case of home equity loans, real estate values may be reduced to a level that is insufficient to cover the outstanding loan balance after accounting for the first mortgage loan balance. Consumer loan collections depend on the borrower's continuing financial stability, and therefore are likely to be adversely affected by various factors, including job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Commercial Business Loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment income or other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Loan Originations, Sales and Purchases. Loan originations come from a number of sources. The primary sources of loan originations are existing customers, walk-in traffic, advertising, and referrals from customers and centers of influence, such as real estate agents, attorneys, accountants and other professionals.

We generally do not sell whole loans, other than long-term fixed rate residential mortgage loans that we originate, or participation interests in loans originated by us. We also generally do not purchase whole loans or participation interests in loans originated by other financial institutions. However, in order to manage certain risk factors or supplement our lending portfolio, we may sell or purchase whole loans or participation interests in loans from time to time depending on various factors. At September 30, 2018, $54.3 million of loans included sold participation interests of $29.1 million, for a net position of $25.2 million outstanding in our portfolio. At September 30, 2018, acquired participation interests of loans from one lending relationship totaled $702,000.

Beginning in April 2015, the Bank hired a management team, business development officers (loan officers), underwriters and supporting staff that are seasoned and experienced in SBA lending in order to enhance the Company's proficiency in SBA 7(a) program loan originations and sales. The Bank continues to hire additional business development officers and appropriate supporting staff in order to grow this lending platform. The primary purpose of this lending platform is to originate SBA 7(a) program loans, the borrowers and collateral for which are outside of our primary market area, and sell the amounts guaranteed by the SBA in the secondary market. This lending platform is also designed to diversify the Company's geographic and interest rate risk profile with respect to the retained unguaranteed amounts given the geographic dispersion of the loans and collateral, and their floating rate structure. The Company originated SBA loans with a total commitment of $85.4 million during the year ended September 30, 2018. At September 30, 2018, $186.7 million of SBA loans included sold guaranteed portions of $120.6 million, for a net position of $66.1 million outstanding in our portfolio. The amount outstanding in the Bank's portfolio at September 30, 2018 included $21.1 million in SBA loans held for sale, $6.9 million in the unguaranteed portion of SBA loans not yet sold and $38.1 million in the unguaranteed portion of SBA loans sold. All SBA loans held for sale were carried at the lower of cost or market value at September 30, 2018 and 2017.

Beginning in April 2018, the Bank hired a management team, business development officers (loan officers), underwriters and supporting staff that are seasoned and experienced in the originations and sales of one- to four-family residential real estate loans on a nationwide basis. The Bank continues to hire additional business development officers and appropriate supporting staff in order to grow this lending platform. The primary purpose of this lending platform is to originate one- to four-family residential real estate loans, the borrowers and collateral for which are outside of our primary market area, and sell the whole loans in the secondary market. The Company originated $43.3 million and sold $33.6 million of one- to four-family residential real estate loans within this lending platform during the year ended September 30, 2018. The amount outstanding in the Bank's portfolio at September 30, 2018 included $10.0 million in loans held for sale. All residential real estate loans held for sale were carried at market value at September 30, 2018 and carried at the lower of cost or market value at September 30, 2017.

Our decision to sell or purchase loans is based on prevailing market interest rate conditions, interest rate risk management considerations, regulatory lending restrictions and liquidity needs.

Loan Approval Procedures and Authority. Our conventional lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors and management. Certain of our employees have been granted individual lending limits, which vary depending on the individual, the type of loan and whether the loan is secured or unsecured. Generally, all loan requests for non-SBA 7(a) program lending relationships that exceed the individual officer lending limits, which is generally $250,000 secured or $50,000 unsecured, require committee or Board of Directors approval. Loans resulting in aggregated lending relationships in excess of individual office lending limits but less than $1.5 million require approval by the Officer Loan Committee and loans resulting in aggregated lending relationships in excess of $1.5 million but less than $3.0 million require approval of the Executive Loan Committee. The Executive Loan Committee consists of the President, Area President, Chief Lending Officer, Chief of Credit Administration and two senior commercial lending officers, and the Officer Loan Committee consists of the same but also includes certain other officers designated by the Board of Directors. Loans resulting in aggregated lending relationships in excess of $3.0 million require approval by both the Executive

Loan Committee and the Board of Directors.

Our SBA 7(a) program lending activities also follow underwriting standards and loan origination procedures established by our Board of Directors and management. Certain of our employees have been granted individual lending limits, which is $2.0 million for the aggregate loan balance, of which 75% or greater is guaranteed by the SBA. Generally, all SBA 7(a) program loan requests for lending relationships that exceed the individual officer lending limits require approval by the SBA Officer Loan Committee. The SBA Officer Loan Committee consists of the President, Chief Lending Officer, Chief of Credit Administration, Chief of SBA Lending, Senior SBA Lending Officer and a senior commercial lending officer. The aggregated lending relationships for the SBA 7(a) program may not exceed $5.0 million according to SBA guidelines and therefore no loan requests require approval by the Board of Directors given that the portion of SBA 7(a) program loans that are not guaranteed by the SBA may not exceed $1.25 million.

Loans to One Borrower. The maximum amount that we may lend to one borrower and the borrower's related entities is limited, by regulation, to generally 15% of our stated capital and reserves. At September 30, 2018, our regulatory limit on loans to one borrower was $15.3 million. At that date, our largest lending relationship was for a commitment of $12.0 million, of which $11.9 million was outstanding, and was performing according to its original terms at that date.

Loan Commitments. We issue commitments for residential and commercial mortgage loans conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements to lend to our customers. Generally, our loan commitments expire after 30 days.

Investment Activities

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various U.S. government agencies and sponsored enterprises, securities of various state and municipal governments, mortgage-backed securities, collateralized mortgage obligations and certificates of deposit of federally insured institutions. Within certain regulatory limits, we also may invest a portion of our assets in other permissible securities. As a member of the Federal Reserve System and Federal Home Loan Bank System, in particular a member of the Federal Home Loan Bank of Indianapolis ("FHLB"), First Savings Bank is also required to acquire and hold shares of capital stock in the Federal Reserve Bank and FHLB.

At September 30, 2018, our investment portfolio consisted primarily of U.S. government agency and sponsored enterprises securities, mortgage backed securities and collateralized mortgage obligations issued by U.S. government agencies and sponsored enterprises, municipal bonds, privately-issued collateralized mortgage obligations and asset-backed securities, and pass-through asset-backed securities guaranteed by the SBA.

Our investment objectives are to provide and maintain liquidity, to establish an acceptable level of interest rate and credit risk, and to provide an alternate source of low-risk investments at a favorable return when loan demand is weak. Our Board of Directors has the overall responsibility for the investment portfolio, including approval of the investment policy. Messrs. Myers, our President and Chief Executive Officer, and Schoen, our Chief Financial Officer, are responsible for implementation of the investment policy and monitoring our investment performance. Our Board of Directors reviews the status of our investment portfolio on a quarterly basis, or more frequently if warranted.

Deposit Activities and Other Sources of Funds

General. Deposits, borrowings, and loan and investment security repayments are the major sources of our funds for lending and other investment purposes. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and outflows, loan prepayments and investment security calls are significantly influenced by general interest rates and money market conditions.

Deposit Accounts. Deposits are attracted from within our primary market area through the offering of a broad selection of deposit instruments, including non-interest-bearing demand deposits (such as checking accounts), interest-bearing demand accounts (such as NOW and money market accounts), regular savings accounts and time deposits. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, profitability to us, matching deposit and loan products and customer preferences and concerns. We generally review our deposit mix and pricing weekly. Our deposit pricing strategy has typically been to offer competitive rates on all types of deposit products, and to periodically offer special rates in order to attract deposits of a specific type or term.

Borrowings. We use advances from the FHLB to supplement our investable funds. First Savings Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System functions as a central reserve bank providing credit for member financial institutions. First Savings Bank, as a member of the FHLB, is required to acquire and hold shares of capital stock in the FHLB and is authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of the U.S., U.S. government agencies or U.S. government-sponsored enterprises), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the FHLB's assessment of the institution's creditworthiness. We have two federal funds purchased line of credit facilities with other financial institutions that are subject to continued borrower eligibility and are intended to support short-term liquidity needs. We also utilize brokered certificates of deposit and retail repurchase agreements as sources of borrowings and may use broker repurchase agreements and internet certificates of deposit from time to time, depending on our liquidity needs and pricing of these facilities versus other funding alternatives.

Personnel

As of September 30, 2018, we had 326 full-time employees and 38 part-time employees, none of whom is represented by a collective bargaining unit.

Subsidiaries

The Company has two wholly-owned subsidiaries, First Savings Bank and First Savings Insurance Risk Management, Inc. (the "Captive"). The Bank has three subsidiaries, Southern Indiana Financial Corporation, Q2 Business Capital, LLC, and First Savings Investments, Inc. The Captive, an insurance subsidiary of the Company, is a Nevada corporation that provides property and casualty insurance to the Company, the Bank and the Bank's active subsidiaries. In addition, the Captive provides reinsurance to eleven other third-party insurance captives for which insurance may not be currently available or economically feasible in the insurance marketplace. Southern Indiana Financial Corporation is an independent insurance agency, offering various types of annuities and life insurance policies, but is currently inactive.

On April 25, 2017, the Bank formed Q2 Business Capital, LLC ("Q2"), which is an Indiana limited liability company that specializes in the origination and servicing of SBA loans. The Bank owns 51% of Q2 with the option to purchase the minority interest between July 1, 2020 and September 30, 2020. In accordance with Q2's operating agreement, the Bank was allocated the first $1.7 million of cumulative net income of Q2 and subsequent profits and losses are allocated 51% to the Bank and 49% to Q2's minority members.

REGULATION AND SUPERVISION

General

First Savings Bank, as an Indiana commercial bank, is subject to extensive regulation, examination and supervision by the Indiana Department of Financial Institutions (“INDFI”). As a member bank of the Federal Reserve System, First Savings Bank’s primary federal regulator is the Federal Reserve Board (“FRB”). First Savings Bank is also a member of the Federal Home Loan Bank System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. First Savings Bank must file reports with its regulatory agencies concerning its activities and financial condition in addition to obtaining regulatory approvals before entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the INDFI and FRB to evaluate First Savings Bank’s safety and soundness and compliance with various regulatory requirements. This regulatory structure is intended primarily for the protection of the Deposit Insurance Fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of an adequate allowance for loan losses for regulatory purposes. Any change in such policies, whether by the INDFI, FRB, or Congress, could have a material adverse impact on First Savings Financial Group and First Savings Bank and their operations.

Certain of the regulatory requirements that are or will be applicable to First Savings Bank and First Savings Financial Group are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on First Savings Bank and First Savings Financial Group.

Regulation of First Savings Bank

Business Activities. The activities of Indiana banks, such as First Savings Bank, are governed by Indiana and federal laws and regulations. Those laws and regulations delineate the nature and extent of the business activities in which banks may engage

Federal law generally limits the activities as principal and equity investments of FDIC insured state banks to those permitted for national banks. Activities as principal of state bank subsidiaries are also limited to those permitted for subsidiaries of national banks, absent regulatory approval for a particular subsidiary activity. In addition, federal law limits the authority of Federal Reserve System member banks, such as First Savings Bank, to purchase investment securities. Generally, such authority is limited to investment securities permissible for national banks, which includes investment grade, marketable debt obligations. Certain activities, such as the establishment of new branches and mergers and acquisitions, require the prior approval of both the INDFI and the FRB.

Loans to One Borrower. Indiana law establishes limits on a bank's loans to one borrower. Generally, subject to certain exceptions, an Indiana bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily-marketable collateral. These limits are similar to those applicable to First Savings Bank under its previous federal savings bank charter.

Capital Requirements. Federal regulations require FDIC insured depository institutions, including state chartered Federal Reserve System member banks, to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8% and a 4% Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015.

As noted, the capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively, and a leverage ratio of at least 4% Tier 1 capital. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale-securities). Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one to four- family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions by the institution and certain discretionary bonus payments to management if an institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and is increasing each year until fully implemented at 2.5% on January 1, 2019.

The FRB has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular risks or circumstances.

As of September 30, 2018, First Savings Bank met all applicable capital adequacy requirements in effect at that date.

Prompt Corrective Regulatory Action. Federal law establishes a system of prompt corrective action to resolve the problems of undercapitalized institutions. The law requires that certain supervisory actions be taken against undercapitalized institutions, the severity of which depends on the degree of undercapitalization. The FRB has adopted regulations to implement the prompt corrective action legislation as to state member banks. The regulations were amended to incorporate the previously mentioned increased regulatory capital standards that were effective January 1, 2015. An institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

Subject to a narrow exception, a receiver or conservator is required to be appointed for an institution that is "critically undercapitalized" within specified time frames. The regulations also provide that a capital restoration plan must be filed with the FRB within 45 days of the date an institution is deemed to have received notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Compliance with the plan must be guaranteed by any parent holding company up to the lesser of 5% of the institution's total assets when it was deemed to be undercapitalized or the amount necessary to achieve compliance with applicable capital requirements. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The FRB could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. Significantly and critically undercapitalized institutions are subject to additional mandatory and discretionary measures.

Insurance of Deposit Accounts. First Savings Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. Currently, deposit insurance per account owner is $250,000. Under the FDIC's existing risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors, with less risky institutions paying lower assessments. An institution's assessment rate depends upon the category to which it is assigned and certain specified adjustments. The assessment rates (inclusive of adjustments) currently range from two and one half to 45 basis points of total capital less tangible assets, depending upon the particular institution's risk category. The rate schedules will automatically adjust in the future when the Deposit Insurance Fund reaches certain milestones. No institution may pay a dividend if in default of the federal deposit insurance assessment.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC. The FDIC has exercised that discretion by establishing a target fund ratio of 2%, which it has established as a long term goal.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of First Savings Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FRB or FDIC. The management of First Savings Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Limitation on Dividends. Indiana law authorizes a bank’s board of directors to declare dividends out of profits as deemed expedient. However, application to and the prior approval of the INDFI and FRB is required before payment of a dividend if total dividends for the calendar year exceed net income for the year to date plus the amount of retained net income for the preceding two years. Federal law specifies that a bank may not pay a dividend if it fails to satisfy any applicable federal capital requirement after the dividend.

If First Savings Bank’s capital ever fell below its regulatory requirements or the FRB notified it that it was in need of increased supervision, its ability to pay dividends or otherwise make capital distributions could be restricted. In addition, the INDFI and/or FRB could prohibit a proposed capital distribution, which would otherwise be permitted by the regulation, if the regulator determined that such distribution would constitute an unsafe or unsound practice.

Standards for Safety and Soundness. The federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness in various areas such as internal controls and information systems, internal audit, loan documentation and credit underwriting, interest rate exposure, asset growth and quality, earnings and compensation, fees and benefits. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the FRB determines that a state member bank fails to meet any standard prescribed by the guidelines, the FRB may require the institution to submit an acceptable plan to achieve compliance with the standard.

Community Reinvestment Act. All federally-insured banks have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. An institution’s failure to satisfactorily comply with the provisions of the Community Reinvestment Act could result in denials of regulatory applications. First Savings Bank received a “satisfactory” Community Reinvestment Act rating in its most recently completed examination.

Transactions with Related Parties. Federal law limits First Savings Bank’s authority to engage in transactions with “affiliates” (*e.g*., any entity that controls or is under common control with First Savings Bank, including First Savings Financial Group and its other subsidiaries). The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of a bank. The aggregate amount of covered transactions with all affiliates is limited to 20% of a bank’s capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type specified by federal law. The purchase of low quality assets from affiliates is generally prohibited. Transactions with affiliates must generally be on terms and under circumstances that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies.

The Sarbanes-Oxley Act of 2002 generally prohibits loans by First Savings Financial Group to its executive officers and directors. However, the law contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws. Under such laws, First Savings Bank's authority to extend credit to executive officers, directors and 10% shareholders ("insiders"), as well as entities such persons control, is limited. The laws limit both the individual and aggregate amount of loans that First Savings Bank may make to insiders based, in part, on First Savings Bank's capital level and requires that certain board approval procedures be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are subject to additional limitations based on the type of loan involved.

Enforcement. The INDFI maintains enforcement authority over First Savings Bank, including the power to issue cease and desist orders and civil money penalties and remove directors, officers or employees. The INDFI also has the power to appoint a conservator or receiver for a bank upon insolvency, imminent insolvency, unsafe or unsound condition or certain other situations. The FRB has primary federal enforcement responsibility over Federal Reserve System member state banks and has authority to bring actions against the institution and all institution-affiliated parties, including shareholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful actions likely to have an adverse effect on the bank. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. The FDIC, as deposit insurer, has the authority to recommend to the FRB that enforcement action be taken with respect to a member bank. If action is not taken by the FRB, the FDIC has authority to take such action under certain circumstances. In general, regulatory enforcement actions occur with respect to situations involving unsafe or unsound practices or conditions, violations of law or regulation or breaches of fiduciary duty. Federal and Indiana law also establish criminal penalties for certain violations.

Assessments. Indiana banks are required to pay assessments to the INDFI to fund the agency's operations. The assessments paid to the INDFI by First Savings Bank for the year ended September 30, 2018 totaled $52,000.

Federal Home Loan Bank System. First Savings Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. First Savings Bank, as a member of the FHLB, is required to acquire and hold shares of capital stock in the FHLB. First Savings Bank was in compliance with this requirement with an investment in FHLB capital stock at September 30, 2018 of $8.7 million.

Federal Reserve Board System. The FRB regulations require banks to maintain reserves against their transaction accounts (primarily Negotiable Order of Withdrawal (NOW) and regular checking accounts). As of September 30, 2018 and through the date of filing, First Savings Bank was in compliance with this requirement.

Other Regulations

First Savings Bank’s operations are also subject to federal laws applicable to credit transactions, including the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of First Savings Bank also are subject to laws such as the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check.

Holding Company Regulation

General. As a bank holding company that has elected financial holding company status within the meaning of the Bank Holding Company Act of 1956, as amended, First Savings Financial Group is subject to FRB regulation, examination, supervision and reporting requirements. In addition, the FRB has enforcement authority over First Savings Financial Group and its non-savings institution subsidiaries. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to First Savings Bank. The INDFI also has examination and enforcement authority since First Savings Financial Group controls an Indiana bank.

As a bank holding company, First Savings Financial Group is required to obtain the prior approval of the FRB to acquire all, or substantially all, of the assets of any other bank or bank holding company. Prior FRB approval is required for any bank holding company to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after such acquisition, the acquiring bank holding company would, directly or indirectly, own or control more than 5% of any class of voting shares of the bank or bank holding company. In addition to the approval of the FRB, prior approval may for such acquisitions also be necessary from other agencies including the INDFI and agencies that regulate the target.

A bank holding company is generally prohibited from engaging in nonbanking activities, or acquiring direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the FRB has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings and loan association whose direct and indirect activities are limited to those permitted for bank holding companies.

The Gramm-Leach-Bliley Act of 1999 authorized a bank holding company that meets specified conditions, including being “well capitalized” and “well managed,” to opt to become a “financial holding company” and thereby engage in a broader array of financial activities than previously permitted. First Savings Financial Group has elected to become a financial holding company because of the activities of the Captive.

Bank holding companies are generally subject to consolidated capital requirements established by the FRB. The Dodd-Frank Act required the FRB to amend its consolidated minimum capital requirements for bank holding companies to make them no less stringent than those applicable to insured depository institutions themselves.

The FRB’s policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. The Dodd-Frank Act codified the source of strength doctrine.

A bank holding company is generally required to give the FRB prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or violate any law, regulation, FRB order or directive, or any condition imposed by, or written agreement with, the FRB. There is an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions.

The FRB has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to dividends in certain circumstances such as where the company's net income for the past four quarters, net of dividends' previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be limited if a subsidiary bank becomes undercapitalized. The guidance also provides for regulatory consultation prior to a bank holding company redeeming or repurchasing regulatory capital instruments when the holding company is experiencing financial weaknesses or where the redemption or repurchase of common or preferred stock cause a net reduction in the amount of such equity instruments outstanding at the end of a quarter compared to the beginning of the quarter in which the redemption or repurchase occurs. These regulatory policies could affect the ability of First Savings Financial Group to pay dividends, repurchase shares of its stock or otherwise engage in capital distributions.

The status of First Savings Financial Group as a registered bank holding company under the Bank Holding Company Act does not exempt it from certain federal and state laws and regulations applicable to corporations generally including, without limitation, certain provisions of the federal securities laws.

Acquisition of Control. Under the federal Change in Bank Control Act, no person may acquire control of a bank holding company such as First Savings Financial Group unless the FRB has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the company's directors, or a determination by the regulator that the acquirer has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a bank holding company's voting stock constitutes a rebuttable presumption of control under the regulations under certain circumstances including where, is the case with First Savings Financial Group, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934. Indiana law requires INDFI approval for changes in control of companies controlling Indiana banks, with "control" defined to mean power to direct the management or policies of the holding company or power to vote at least 25% of the company's voting securities.

Federal Securities Laws

First Savings Financial Group's common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. First Savings Financial Group is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934, as amended.

INCOME TAXATION

Federal Taxation

General. We report our income on a fiscal year basis using the accrual method of accounting. The federal income tax laws apply to us in the same manner as to other corporations with some exceptions, including particularly our reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to us.

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act (the “Tax Act”), was signed into law. Among other things, the Act reduces the Company’s corporate federal tax rate from 34% to 21% effective January 1, 2018. The Company files federal income tax returns on a September 30 fiscal year basis, so in accordance with Internal Revenue Code regulations, the Company’s federal income tax rate for the year ended September 30, 2018 is based on a blended rate of 24.5%. As a result of the Tax Act, the Company was required to re-measure, through income tax expense, deferred tax assets and liabilities using the enacted rate at which the Company expects them to be recovered or settled. The re-measurement of the net deferred tax asset resulted in an income tax benefit of approximately $145,000 for the year ended September 30, 2018.

First Savings Financial Group and First Savings Bank have entered into a tax allocation agreement. Because First Savings Financial Group owns 100% of the issued and outstanding capital stock of First Savings Bank, First Savings Financial Group and First Savings Bank are members of an affiliated group within the meaning of Section 1504(a) of the Internal Revenue Code, of which group First Savings Financial Group is the common parent corporation. As a result of this affiliation, First Savings Bank may be included in the filing of a consolidated federal income tax return with First Savings Financial Group and, if a decision to file a consolidated tax return is made, the parties agree to compensate each other for their individual share of the consolidated tax liability and/or any tax benefits provided by them in the filing of the consolidated federal income tax return.

Our Federal income tax returns have not been audited during the last five years.

Bad Debt Reserves. For fiscal years beginning before June 30, 1996, thrift institutions that qualified under certain definitional tests and other conditions of the Internal Revenue Code, as the Bank did prior to its conversion to a commercial bank in December 2014, were permitted to use certain favorable provisions to calculate their deductions from taxable income for annual additions to their bad debt reserve. A reserve could be established for bad debts on qualifying real property loans, generally secured by interests in real property improved or to be improved, under the percentage of taxable income method or the experience method. The reserve for nonqualifying loans was computed using the experience method. Federal legislation enacted in 1996 repealed the reserve method of accounting for bad debts and the percentage of taxable income method for tax years beginning after 1995 and required savings institutions to recapture or take into income certain portions of their accumulated bad debt reserves. Approximately $4.6 million of our accumulated bad debt reserves would not be recaptured into taxable income unless First Savings Bank makes a “non-dividend distribution” to First Savings Financial Group as described below.

Distributions. If First Savings Bank makes “non-dividend distributions” to First Savings Financial Group, the distributions will be considered to have been made from First Savings Bank’s unrecaptured tax bad debt reserves, including the balance of its reserves as of September 30, 1988, to the extent of the “non-dividend distributions,” and then from First Savings Bank’s supplemental reserve for losses on loans, to the extent of those reserves, and an amount based on the amount distributed, but not more than the amount of those reserves, will be included in First Savings Bank’s taxable income. Non-dividend distributions include distributions in excess of First Savings Bank’s current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of First Savings Bank’s current or accumulated earnings and profits will not be so included in First Savings Bank’s taxable income.

The amount of additional taxable income triggered by a non-dividend distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Therefore, if First Savings Bank makes a non-dividend distribution to First Savings Financial Group, approximately one and one-quarter times the amount of the distribution not in excess of the amount of the reserves would be includable in income for federal income tax purposes, assuming a 21% federal corporate income tax rate. First Savings Bank does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

State Taxation

Indiana. Effective July 1, 2013, Indiana amended its tax code to provide for reductions in the franchise tax rate. For the Company’s tax year ended September 30, 2018, Indiana imposed a 6.50% franchise tax based on a financial institution’s adjusted gross income as defined by statute. The Indiana franchise tax rate will be reduced to 6.5%, 6.25%, 6.0%, 5.5%, 5.0%, and 4.9% for the Company’s tax years ending September 30, 2019, 2020, 2021, 2022, 2023, and 2024 and years thereafter, respectively. In computing adjusted gross income, deductions for municipal interest, U.S. Government interest, the bad debt deduction computed using the reserve method and pre-1990 net operating losses are disallowed.

The Company and its subsidiaries also file income and franchise tax returns in various other states where they are deemed to have tax nexus.

Our state income tax returns have not been audited during the last five years.

Item 1A. RISK FACTORS

Our emphasis on commercial real estate lending and commercial business lending may expose us to increased lending risks.

At September 30, 2018, $411.3 million, or 57.7%, of our loan portfolio consisted of commercial real estate loans and commercial business loans. Subject to market conditions, we intend to increase our origination of these loans. Commercial real estate loans generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Commercial real estate loans also typically involve larger loan balances to single borrowers or groups of related borrowers both at origination and at maturity because many of our commercial real estate loans are not fully-amortizing, but result in “balloon” balances at maturity. Commercial business loans expose us to additional risks since they typically are made on the basis of the borrower's ability to make repayments from the cash flow of the borrower's business and are secured by non-real estate collateral that may depreciate over time. In addition, some of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship may expose us to a greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. At September 30, 2018, nonperforming commercial real estate loans totaled $1.3 million. At September 30, 2018 the Bank did not have any nonperforming commercial business loans. For more information about the credit risk we face, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management."*

Our construction loan and land and land development loan portfolios may expose us to increased credit risk.

At September 30, 2018, $38.7 million, or 5.4% of our loan portfolio consisted of construction loans, and land and land development loans, and $5.9 million, or 15.3% of the construction loan portfolio (excluding undisbursed commitments and portions participated to other financial institutions), consisted of speculative construction loans at that date. Speculative construction loans are loans made to builders who have not identified a buyer for the completed property at the time of loan origination. Subject to market conditions, we intend to continue to emphasize the origination of construction loans and land and land development loans. These loan types generally expose a lender to greater risk of nonpayment and loss than residential mortgage loans because the repayment of such loans often depends on the successful operation or sale of the property and the income stream of the borrowers and such loans typically involve larger balances to a single borrower or groups of related borrowers. In addition, many borrowers of these types of loans have more than one loan outstanding with us so an adverse development with respect to one loan or credit relationship can expose us to significantly greater risk of non-payment and loss. Furthermore, we may need to increase our allowance for loan losses through future charges to income as the portfolio of these types of loans grows, which would adversely affect our earnings. For more information about the credit risk we face, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management."*

Our concentration in non-owner occupied residential real estate loans may expose us to increased credit risk.

At September 30, 2018, $26.8 million, or 13.7% of our residential mortgage loan portfolio and 3.8% of our total loan portfolio, consisted of loans secured by non-owner occupied residential properties. Loans secured by non-owner occupied properties generally expose a lender to greater risk of non-payment and loss than loans secured by owner occupied properties because repayment of such loans depend primarily on the tenant's continuing ability to pay rent to the property owner, who is our borrower, or, if the property owner is unable to find a tenant, the property owner's ability to repay the loan without the benefit of a rental income stream. In addition, the physical condition of non-owner occupied properties is often below that of owner occupied properties due to lax property maintenance standards, which has a negative impact on the value of the collateral properties. Furthermore, some of our non-owner occupied residential loan borrowers have more than one loan outstanding with us. At September 30, 2018, we had seven non-owner occupied residential loan relationships, each having an outstanding balance over $500,000, with aggregate outstanding balances of $7.1 million. Consequently, an adverse development with respect to one credit relationship may expose us to a greater risk of loss compared to an adverse development with respect to an owner occupied residential mortgage loan. At September 30, 2018, the Bank did not have any nonperforming non-owner occupied residential loans. At September 30, 2018, the Bank did not have any non-owner occupied residential properties held as real estate owned. For more information about the credit risk we face, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management."*

We may suffer losses in our loan portfolio despite our underwriting practices.

Our results of operations are significantly affected by the ability of borrowers to repay their loans. Lending money is an essential part of the banking business. However, borrowers do not always repay their loans. The risk of non-payment is historically small, but if nonpayment levels are greater than anticipated, our earnings and overall financial condition, as well as the value of our common stock, could be adversely affected. No assurance can be given that our underwriting practices or monitoring procedures and policies will reduce certain lending risks. Loan losses can cause insolvency and failure of a financial institution and, in such an event, our stockholders could lose their entire investment. In addition, future provisions for loan losses could materially and adversely affect our earnings and financial condition. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans. For more information about the credit risk we face, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management."*

Our allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, we maintain an allowance for loan losses to provide for probable incurred losses due to loan defaults, non-performance, and other qualitative factors. Our allowance for loan losses is based on our historical loss experience as well as an evaluation of the risks associated with our loan portfolio, including the size and composition of the loan portfolio, loan portfolio performance, fair value of collateral securing the loans, current economic conditions and geographic concentrations within the portfolio. Our allowance for loan losses may not be adequate to cover actual loan losses, and future provisions for loan losses could materially and adversely affect our earnings and financial condition. For more information about our analysis and determination of allowance for loan losses, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management."*

Our SBA lending program is dependent upon the federal government and we face specific risks associated with originating SBA loans.

Our SBA lending program is dependent upon the federal government. As an SBA Preferred Lender, we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender's Preferred Lender status. If we lose our status as a Preferred Lender, we may lose some or all of our customers to lenders who are SBA Preferred Lenders. Also, any changes to the SBA program, including changes to the level of guarantee provided by the federal government on SBA loans, could adversely affect our business and earnings.

We generally sell the guaranteed portion of our SBA 7(a) program loans in the secondary market. These sales have resulted in premium income for us at the time of sale and created a stream of future servicing income. We may not be able to continue originating these loans or selling them in the secondary market. Furthermore, even if we are able to continue originating and selling SBA 7(a) program loans in the secondary market, we might not continue to realize premiums upon the sale of the guaranteed portion of these loans. When we sell the guaranteed portion of our SBA 7(a) program loans, we incur credit risk on the non-guaranteed portion of the loans, and if a customer defaults on the non-guaranteed portion of a loan, we share any loss and recovery related to the loan pro-rata with the SBA. If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us, which could adversely affect our business and earnings.

The laws, regulations and standard operating procedures that are applicable to SBA loan products may change in the future. We cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, changes in the laws, regulations and procedures applicable to SBA loans could adversely affect our business and earnings.

Decreased residential mortgage origination volume and pricing decisions of competitors may adversely affect our profitability.

Our mortgage banking operation originates and sells residential mortgage loans. Changes in interest rates, housing prices, applicable government regulations and pricing decisions by our loan competitors may adversely affect demand for our residential mortgage loan products and the revenue realized on the sale of loans and, ultimately, reduce our net income. New regulations, increased regulatory reviews, and/or changes in the structure of the secondary mortgage markets which we utilize to sell mortgage loans may increase costs and make it more difficult to operate a residential mortgage origination business. Our revenue from the mortgage banking business was $2.3 million in the year ended September 30, 2018. This revenue could significantly decline in future periods if interest rates were to continue rising and the other risks highlighted in this paragraph were realized, which may adversely affect our profitability.

We may be required to repurchase mortgage loans or indemnify buyers against losses in some circumstances.

When residential mortgage loans are sold, whether as whole loans or pursuant to a securitization, we are required to make customary representations and warranties to purchasers, guarantors and insurers about the mortgage loans and the manner in which they were originated. We may be required to repurchase or substitute mortgage loans, or indemnify buyers against losses, in the event we breach certain representations or warranties in connection with the sale of such loans. If repurchase and indemnity demands increase, are valid claims and are in excess of our provision for potential losses, our liquidity, results of operations or financial condition may be materially and adversely affected.

Strong competition within our primary market area could hurt our profits and slow growth.

We face intense competition both in making loans and attracting deposits. This competition has made it more difficult for us to make new loans and attract deposits. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which would reduce net interest income. Competition also makes it more difficult to grow loans and deposits. At June 30, 2018, which is the most recent date for which data is available from the FDIC, we held approximately 16.27%, 17.16%, 3.06%, 36.57%, 100.00% and 17.09% of the FDIC-insured deposits in Clark, Daviess, Floyd, Harrison, Crawford and Washington Counties, Indiana, respectively. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our primary market area. See “Item 1. Business — Market Area” and “Item 1. Business — Competition” for more information about our primary market area and the competition we face.

Changing interest rates may hurt our earnings and asset value.

Our net interest income is the interest we earn on loans and investments less the interest we pay on our deposits and borrowings. Our net interest margin is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates—up or down—could adversely affect our net interest margin and, as a result, our net interest income. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract until the yield catches up. Changes in the slope of the “yield curve”—or the spread between short-term and long-term interest rates—could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets. Also, interest rate decreases can lead to increased prepayments of loans and mortgage-backed securities as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such repayment proceeds into lower yielding investments, which would likely hurt our income. At September 30, 2018, approximately $313.7 million, or 44.0% of the total loan portfolio, consisted of fixed rate mortgage loans. This investment in fixed-rate mortgage loans exposes the Company to increased levels of interest rate risk.

Changes in interest rates also affect the value of our interest-earning assets, and in particular our securities portfolio. Generally, the value of fixed-rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on securities available for sale are reported as a separate component of equity, net of tax. Decreases in the fair value of securities available for sale resulting from increases in interest rates could have an adverse effect on stockholders' equity. For further discussion of how changes in interest rates could impact us, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations —Risk Management — Interest Rate Risk Management."*

Recessionary conditions could result in increases in our level of nonperforming loans and/or reduce demand for our products and services, which would lead to lower revenue, higher loan losses and lower earnings.

Recessionary conditions and/or continued negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Declines in real estate values and sales volumes and increased unemployment levels may result in higher than expected loan delinquencies, increases in our levels of nonperforming and classified assets and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity, and financial condition.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

Market expansion and acquisitions, such as our acquisition of Dearmin and FNBO in February 2018, may not produce revenue enhancements or cost savings at levels or within timeframes originally anticipated and may result in unforeseen integration difficulties and dilution to existing shareholder value.

We have acquired, and expect to continue to acquire, other financial institutions or parts of those institutions in the future, and we may engage in de novo branch expansion. We may also consider and enter into new lines of business or offer new products or services. We may incur substantial costs to expand, and we can give no assurance such expansion will result in the levels of profits we seek. There can be no assurance that integration efforts for any mergers or acquisitions will be successful. Also, we may issue equity securities in connection with acquisitions, which could cause ownership and economic dilution to our current shareholders. There is no assurance that, following any mergers or acquisitions, our integration efforts will be successful or that, after giving effect to the acquisition, we will achieve profits comparable to, or better than, our historical experience.

Market expansion and acquisitions involve a number of expenses and risks, including:

- the time and costs of associated with identifying and evaluating potential new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- the time and costs associated with identifying potential acquisition and merger targets;
- the accuracy of the estimates and judgments used to evaluate credit, operations, management and market risks with respect to a target institution;
- the diversion of our management’s attention to the negotiation of a transaction, and the integration of the operations and personnel of the combined businesses;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- closing delays and expenses related to the resolution of lawsuits filed by shareholders of targets;
- entry into new markets where we lack experience;
- introduction of new products and services into our business;
- the risk of loss of key employees and customers; and
- incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations.

Future acquisitions could be material to the Company and it may issue additional shares of stock to pay for those acquisitions, which would dilute current shareholder’s ownership interests.

If the goodwill that we recorded in connection with a business acquisition becomes impaired, it could have a significant negative impact on our profitability.

Goodwill represents the amount of consideration exchanged over the fair value of net assets we acquired in the purchase of another financial institution. We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate the carrying value of the asset might be impaired. At September 30, 2018, our goodwill totaled $9.8 million. While we have recorded no such impairment charges since we initially recorded the goodwill, there can be no assurance that our future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

If an other-than-temporary-impairment is recorded in connection with our investment portfolio it could have a significant negative impact on our profitability.

Our investment portfolio consists primarily of U.S. government agency and sponsored enterprises securities, mortgage backed securities and collateralized mortgage obligations issued by U.S. government agencies and sponsored enterprises, municipal bonds, and privately-issued collateralized mortgage obligations and asset-backed securities. We must evaluate these securities for other-than-temporary impairment loss (“OTTI”) on a periodic basis. The privately-issued collateralized mortgage obligations and asset-backed securities exhibit signs of weakness, which may necessitate an OTTI charge in the future should the financial condition of the pools deteriorate further. Any future OTTI charges could have a significant adverse effect our earnings.

Because the nature of the financial services business involves a high volume of transactions, we face significant operational risks.

Operational risk is the risk of loss resulting from our operations, including, but not limited to, the risk of fraud by employees or persons outside of the Company and Bank, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements and business continuation and disaster recovery. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action and suffer damage to our reputation.

A disruption, failure in or breach, including cyber-attacks, of our operational, communications, information or security systems, or those of our third party vendors and other service providers, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

We rely heavily on communications and information systems to conduct our business and face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Any failure or interruption of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure or interruption of these information systems, there can be no assurance that any such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures or interruptions of these information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We rely on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Although we take numerous protective measures to maintain the confidentiality, integrity and availability of our and our clients' information across all geographic and product lines, and endeavor to modify these protective measures as circumstances warrant, the nature of the threats continues to evolve. As a result, our computer systems, software and networks and those of our customers may be vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber-attacks and other events that could have an adverse security impact and result in significant losses by us and/or our customers. Despite the defensive measures we take to manage our internal technological and operational infrastructure, these threats may originate externally from third parties, such as foreign governments, organized crime and other hackers, and outsource or infrastructure-support providers and application developers, or the threats may originate from within our organization. Given the increasingly high volume of our transactions, certain errors may be repeated or compounded before they can be discovered and rectified.

We are inherently exposed to risks caused by the use of computer, internet and telecommunications systems, and susceptible to fraudulent activity that may be committed against us or our clients, which may result in financial losses to us or our clients, privacy breaches against our clients or damage to our reputation. These risks include fraud by employees, customers and other outside entities targeting us and/or our customers, and such fraudulent activity may take many forms, including internet fraud, check fraud, electronic fraud, wire fraud, phishing, and other dishonest acts. In recent periods, there has been a rise in electronic fraudulent activity within the financial services industry, especially in the commercial banking sector, due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity in recent periods. Given such increase in electronic fraudulent activity and the growing level of use of electronic, internet-based and networked systems to conduct business directly or indirectly with our clients, certain fraud losses may not be avoidable regardless of the preventative and detection systems in place.

Although, to date, we have not experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the outsourcing of some of our business operations and the continued uncertain global economic environment. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

We maintain an insurance policy which we believe provides sufficient coverage at a manageable expense for an institution of our size and scope with similar technological systems. However, we cannot assure that this policy will afford coverage for all possible losses or would be sufficient to cover all financial losses, damages, penalties, including lost revenues, should we experience any one or more of our or a third party's systems failing or experiencing attack.

We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.

The Bank is subject to extensive regulation, supervision and examination by the INDFI, its chartering authority, the FRB, its primary federal regulator, and the FDIC, as insurer of its deposits. The Company is also subject to regulation and supervision by the Federal Reserve Bank of St. Louis. Such regulation and supervision governs the activities in which an institution and its holding company may engage, and are intended primarily for the protection of the insurance fund and the depositors and borrowers of the Bank rather than for holders of the Company's common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. If our regulators require us to charge-off loans or increase our allowance for loan losses, our earnings would suffer. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

The Dodd-Frank Act has created a new federal agency to administer consumer protection and fair lending laws, a function that was formerly performed by the depository institution regulators. The Dodd-Frank Act contains various other provisions designed to enhance the regulation of depository institutions including the implementation of more stringent capital adequacy rules. The full impact of the Dodd-Frank Act on our business and operations will not be known for years until regulations implementing the statute are written and adopted. The Dodd-Frank Act may have a material impact on our operations, particularly through increased regulatory burden and compliance costs. Any future legislative changes could have a material impact on our profitability, the value of assets held for investment or collateral for loans. Future legislative changes could require changes to business practices or force us to discontinue businesses and potentially expose us to additional costs, liabilities, enforcement action and reputational risk.

In addition to the enactment of the Dodd-Frank Act, the federal regulatory agencies have taken stronger supervisory actions against financial institutions that have experienced increased loan losses and other weaknesses as a result of the recent economic crisis. The actions include entering into written agreements and cease and desist orders that place certain limitations on operations. Federal bank regulators have also been using with more frequency their ability to impose individual minimum capital requirements on banks, which requirements may be higher than those required under the Dodd-Frank Act or that would otherwise qualify a bank as being “well capitalized” under applicable prompt corrective action regulations. If we were to become subject to a regulatory agreement or higher individual minimum capital requirements, such action may have a negative impact on our ability to execute our business plan, as well as our ability to grow, pay dividends or engage in mergers and acquisitions and may result in restrictions in our operations. For a further discussion, see *“Item 1. Business – Regulation and Supervision.”*

We rely heavily on our management team and the unexpected loss of any of those personnel could adversely affect our operations, and we depend on our ability to attract and retain key personnel.

We are a customer-focused and relationship-driven organization. We expect our future growth to be driven in a large part by the relationships maintained with our customers by our executive and other senior officers. Although we are party to non-compete and non-solicitation agreements with certain executive, senior and other officers, the unexpected loss of any of our key employees could have an adverse effect on our business, results of operations and financial condition.

The implementation of our business strategy will also require us to continue to attract, hire, motivate and retain skilled personnel to develop new customer relationships as well as new financial products and services. The market for qualified employees in the businesses in which we operate is competitive and we may not be successful in attracting, hiring or retaining key personnel. Our inability to attract, hire or retain key personnel could have a material adverse effect on our business, results of operations and financial condition.

Our ability to pay dividends is subject to certain limitations and restrictions, and there is no guarantee that we will be able to continue paying the same level of dividends in the future that we paid in 2018 or that we will be able to pay future dividends at all.

Our ability to declare and pay dividends is subject to the guidelines of the FRB regarding capital adequacy and dividends, other regulatory restrictions, and the need to maintain sufficient consolidated capital. The ability of the Bank to pay dividends to the Company is subject to regulation by the INDFI, applicable Indiana law and the FRB, and is limited by the Bank's obligations to maintain sufficient capital and liquidity. In addition, banking regulators may propose guidelines seeking greater liquidity and regulations requiring greater capital requirements. If such new regulatory requirements were not met, the Bank would not be able to pay dividends to the Company, and consequently we may be unable to pay dividends on our common stock.

There has been a sporadic trading market for our stock and you may not be able to resell your shares at or above the price you paid for them.

The price of the common stock purchased may decrease significantly. Although our common stock is quoted on the NASDAQ Capital Market under the symbol "FSFG", trading activity in the stock historically has been sporadic. A public trading market having the desired characteristics of liquidity and order depends on the presence in the market of willing buyers and sellers at any given time. The presence of willing buyers and sellers depends on the individual decisions of investors and general economic conditions, all of which are beyond our control.

Insiders have substantial control over us, and this control may limit our shareholders' ability to influence corporate matters and may delay or prevent a third party from acquiring control over us.

As of December 10, 2018, our directors, executive officers, and their related entities and persons currently beneficially own, in the aggregate, approximately 14.51% of our outstanding common stock. The significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise. In addition, these shareholders will be able to exercise influence over all matters requiring shareholder approval, including the election of directors and approval of corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a change in control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change in control would benefit our other shareholders. For information regarding the ownership of our outstanding stock by our directors, executive officers, and their related entities and persons, see "Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters".

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We conduct our business through our main office and branch offices. The following table sets forth certain information relating to these facilities as of September 30, 2018.

Location	Year Opened	Owned/ Leased
Main Office:		
Clarksville Main Office		
501 East Lewis & Clark Parkway	1968	Owned
Clarksville, Indiana		
Branch Offices:		
Jeffersonville - Allison Lane Office		
2213 Allison Lane	1975	Owned
Jeffersonville, Indiana		
Charlestown Office		
1100 Market Street	1993	Owned
Charlestown, Indiana		
Georgetown Office		
1000 Copperfield Drive	2003	Owned
Georgetown, Indiana		
Jeffersonville - Court Avenue Office	1986	Owned

202 East Court Avenue		
Jeffersonville, Indiana		
Sellersburg Office		
125 Hunter Station Way	1995	Owned
Sellersburg, Indiana		
Corydon Office		
900 Hwy 62 NW	1996	Owned
Corydon, Indiana		
Salem Office		
1336 S Jackson Street	1995	Owned
Salem, Indiana		
English Office		
200 Indiana Avenue	1925	Owned
English, Indiana		
Marengo Office		
125 W Old Short Street	1984	Owned
Marengo, Indiana		
Leavenworth Office		
510 Hwy 62	1969	Owned
Leavenworth, Indiana		
Lanesville Office		
7340 Main Street NE	1948	Owned
Lanesville, Indiana		
Elizabeth Office	1975	Owned
8160 Beech Street SE		
Elizabeth, Indiana		

New Albany Office 2218 State Street New Albany, Indiana	2013	Leased
Odon Office 501 West Main Street Odon, Indiana	1982	Owned
Montgomery Office 478 West Meyers Street Montgomery, Indiana	1992	Owned

27

The Bank owns two former branch office locations that have been closed and the operations of which were consolidated into existing branch office operations. The property located in Floyds Knobs, Indiana is utilized by the Bank as an operation center. The property located in Milltown, Indiana is fully reserved and therefore has a zero carrying value at September 30, 2018 on the balance sheet of the Consolidated Financial Statements.

The Company owned a 4.077 acre parcel of land in New Albany, Indiana, which was developed by FFCC, Inc., a former wholly-owned subsidiary of the Bank. The retail development, named “Wesley Commons”, included over 36,000 square feet of leasable class-A retail space and included the Bank’s New Albany branch office location. The retail development was sold September 29, 2016, at which time a 10-year lease with several renewal options for the branch office location was executed between the Bank and the buyer, and FFCC was voluntarily dissolved and completely liquidated effective December 31, 2016.

The Company purchased an 8.097 acre parcel of land in Jeffersonville, Indiana, in July 2013 upon which it intended to construction an office building, relocate its corporate headquarters, and subsequently divest of additional unused acreage in future years. However, on July 20, 2018, the Company entered into a purchase agreement to acquire real estate, which includes an office building, in Jeffersonville, Indiana, to which it intends to relocate its corporate headquarters. The purchase price was $7.5 million and the purchase was consummated on October 1, 2018. As of September 30, 2018, there were no formal plans for divestiture of the 8.097 acre parcel of land, which had a carrying value of approximately $1.7 million and was included in “premises and equipment” at September 30, 2018 on the balance sheet of the Consolidated Financial Statements.

The Company also rents additional office space and equipment under operating lease agreements that expire at different dates through September 2026. See Note 20 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding the Company’s operating leases.

Item 3. LEGAL PROCEEDINGS

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Common Equity and Related Stockholder Matters

The Company's common stock is listed on the NASDAQ Capital Market ("NASDAQ") under the trading symbol "FSFG." As of December 10, 2018, the Company had approximately 255 holders of record and 2,300,810 shares of common stock outstanding. The figure of shareholders of record does not reflect the number of persons whose shares are in nominee or "street" name accounts through brokers. See Item 1, *"Business—Regulation and Supervision—Limitation on Capital Distributions"* and Note 25 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for information regarding dividend restrictions applicable to the Company.

The following table provides quarterly market price and dividend information per common share for the years ended September 30, 2018 and 2017 as reported by NASDAQ.

	High Sale	Low Sale	Dividends	Market price end of period
2018:				
Fourth Quarter	$74.30	$66.56	$ 0.15	$ 68.28
Third Quarter	74.25	67.04	0.15	73.49
Second Quarter	80.01	57.00	0.15	69.50
First Quarter	58.00	53.40	0.14	57.02
2017:				
Fourth Quarter	$55.50	$51.27	$ 0.14	$ 53.40
Third Quarter	58.97	48.16	0.14	52.78
Second Quarter	50.73	44.10	0.14	48.72
First Quarter	48.49	35.16	0.13	47.00

The Company currently intends to maintain a policy of paying regular quarterly cash dividends; however, the Company cannot guarantee that it will pay dividends or that if paid, it will not reduce or eliminate dividends in the future.

Purchases of Equity Securities

The following table presents information regarding the Company's stock repurchase activity during the quarter ended September 30, 2018:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs (1)	(d) Maximum number of shares that may yet be purchased under the plans or programs
July 1, 2018 through July 31, 2018	—	—	—	60,472
August 1, 2018 through August 31, 2018	—	—	—	60,472
September 1, 2018 through September 30, 2018	—	—	—	60,472
Total	—	—	—	60,472

(1) On November 16, 2012, the Company announced that its Board of Directors authorized a stock repurchase program to acquire up to 230,217 shares, or 10.0% of the Company's outstanding common stock. Under the program, which has no expiration date, repurchases are to be conducted through open market purchases or privately negotiated transactions, and are to be made from time to time depending on market conditions and other factors. There is no guarantee as to the exact number of shares to be repurchased by the Company. Repurchased shares will be held in treasury.

Equity Compensation Plan Information

The following table sets forth information as of September 30, 2018 about Company common stock that may be issued under the Company's equity compensation plans. All plans were approved by the Company's stockholders.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	150,033	$ 24.88	24,598
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	150,033	$ 24.88	24,598

In December 2009 the Company adopted the 2010 Equity Incentive Plan ("2010 Plan"), which the Company's shareholders approved in February 2010. The 2010 Plan provided for the award of stock options and restricted stock. The aggregate number of shares of the Company's common stock available for issuance under the Plan may not exceed 355,885 shares, consisting of 254,204 stock options and 101,681 shares of restricted stock. As of September 30, 2018, grants outstanding under the 2010 Plan included 101,681 restricted shares, 182,349 incentive stock options and 63,197 non-statutory stock options to directors, officers and key employees. The restricted shares and stock options granted vest ratably over five years and, once vested, the stock options are exercisable in whole or in part for a period up to ten years from the date of the award.

In December 2015 the Company adopted the 2016 Equity Incentive Plan ("2016 Plan"), which the Company's shareholders approved in February 2016. The 2016 Plan provides for the award of stock options and restricted stock. The aggregate number of shares of the Company's common stock available for issuance under the Plan may not exceed 88,000 shares, consisting of 66,000 stock options and 22,000 shares of restricted stock. As of September 30, 2018, grants outstanding under the 2016 Plan included 18,265 restricted shares, 45,895 incentive stock options and 7,900 non-statutory stock options to directors, officers and key employees. The restricted shares and stock options granted vest ratably over five years and, once vested, the stock options are exercisable in whole or in part for a period up to ten years from the date of the award.

31

Item 6. SELECTED FINANCIAL DATA

The following tables contain certain information concerning our consolidated financial position and results of operations, which is derived in part from our audited consolidated financial statements. The following is only a summary and should be read in conjunction with the audited consolidated financial statements and notes thereto beginning on page F-1 of this annual report.

	At September 30,				
(In thousands)	2018	2017	2016	2015	2014
Financial Condition Data:					
Total assets	$1,034,406	$891,133	$796,516	$749,946	$713,129
Cash and cash equivalents	42,274	34,259	29,342	24,994	20,330
Trading account securities	-	7,175	9,255	9,044	5,319
Securities available-for-sale	184,373	178,099	174,493	178,328	184,697
Securities held-to-maturity	2,607	2,878	3,166	4,620	5,419
Loans held for sale	32,125	25,635	5,471	6,803	281
Loans, net	704,271	586,456	518,611	457,112	433,876
Deposits	811,112	669,382	579,467	533,297	533,194
Borrowings from FHLB	90,000	118,065	121,633	104,867	79,548
Other borrowings	21,013	1,348	1,345	5,974	6,150
Stockholders' equity	98,813	93,115	86,580	94,357	87,080

	For the Year Ended September 30,				
(In thousands)	2018	2017	2016	2015	2014
Operating Data:					
Interest income	$42,159	$33,917	$29,456	$27,987	$27,494
Interest expense	6,337	4,457	4,167	3,778	3,555
Net interest income	35,822	29,460	25,289	24,209	23,939
Provision for loan losses	1,353	1,301	637	859	1,246
Net interest income after provision for loan losses	34,469	28,159	24,652	23,350	22,693
Noninterest income	13,295	8,625	3,372	5,976	5,046
Noninterest expense	33,006	24,951	22,435	20,999	20,272
Income before income taxes	14,758	11,833	5,589	8,327	7,467
Income tax expense (benefit)	2,422	2,520	(2,322)	1,576	2,077
Net income	12,336	9,313	7,911	6,751	5,390
Less: net income attributable to noncontrolling interests	1,434	-	-	-	-
Net income attributable to First Savings Financial Group	10,902	9,313	7,911	6,751	5,390
Less: Preferred stock dividends declared	-	-	62	171	171
Net income available to common shareholders	$10,902	$9,313	$7,849	$6,580	$5,219

For the Year Ended September 30,				
2018	2017	2016	2015	2014

Per Share Data:					
Net income per common share, basic	$4.83	$4.20	$3.57	$3.07	$2.46
Net income per common share, diluted	4.60	3.97	3.41	2.93	2.34
Dividends per common share	0.59	0.55	0.51	0.47	0.43

	At or For the Year Ended September 30,				
	2018	2017	2016	2015	2014
Performance Ratios:					
Return on average assets	1.11 %	1.10 %	1.03 %	0.93 %	0.78 %
Return on average equity	11.37	10.56	9.04	7.43	6.38
Return on average common stockholders’ equity	11.37	10.56	9.73	9.16	8.01
Interest rate spread (1)	3.82	3.84	3.71	3.74	3.86
Net interest margin (2)	3.99	3.95	3.81	3.84	3.93
Other expenses to average assets	3.35	2.96	2.93	2.88	2.92
Efficiency ratio (3)	67.20	65.51	78.28	69.57	69.94
Efficiency ratio (excluding nonrecurring items) (4)	63.96	64.69	68.20	69.57	69.94
Average interest-earning assets to average interest-bearing liabilities	125.02	120.21	117.86	116.90	114.66
Dividend payout ratio	12.32	13.20	14.03	14.74	16.96
Average equity to average assets	9.77	10.45	11.45	12.47	12.17
Capital Ratios (5):					
Total capital (to risk-weighted assets):					
Consolidated	14.50 %	12.69 %	11.82 %	16.21 %	N/A
Bank	12.92	12.22	11.33	13.13	14.87 %
Tier 1 capital (to risk-weighted assets):					
Consolidated	10.84	11.53	10.66	14.96	N/A
Bank	11.75	11.05	10.16	11.88	13.62
Common equity Tier 1 capital (to risk-weighted assets):					
Consolidated	10.84	11.53	10.66	14.96	N/A
Bank	11.75	11.05	10.16	11.88	N/A
Tier 1 capital (to average adjusted total assets):					
Consolidated	8.39	9.14	8.43	11.01	N/A
Bank	9.10	8.79	8.09	8.67	9.14

(1) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost on average interest-bearing liabilities. Tax exempt income is reported on a tax equivalent basis using a blended federal marginal tax rate of 24.5% for 2018 and 34% for years 2014 through 2017.

(2) Represents net interest income as a percent of average interest-earning assets. Tax exempt income is reported on a tax equivalent basis using a federal marginal tax rate of 24.5% for 2018 and 34% for years 2014 through 2017.

(3) Represents other expenses divided by the sum of net interest income and other income. This is a non-GAAP financial measure that management believes is useful to investors in understanding the Company's performance.

(4) Represents other expenses, excluding nonrecurring items as discussed below, divided by the sum of net interest income and other income, excluding income (loss) on tax credit investment as discussed below. The efficiency ratio for 2018 excludes the income on tax credit investment of $585,000, expenses of $1.3 million associated with the acquisition of and merger with Dearmin and FNBO, and expenses of $661,000 associated with the initial operations of the secondary-market residential mortgage lending division. The efficiency ratio for 2017 excludes the loss on tax credit investment of $226,000 and expenses of $166,000 associated with the acquisition of and merger with Dearmin and FNBO. The efficiency ratio for 2016 excludes the loss on tax credit investment of $4.2 million. This is a non-GAAP financial measure that management believes is useful to investors in understanding the Company's performance.

(5) First Savings Financial Group was not subject to the regulatory capital requirements until its conversion from a savings and loan holding company to a bank holding company in December 2014. Therefore, the capital amounts and ratios presented for the year ended September 30, 2014 are for the Bank only.

	At or For the Year Ended September 30,				
	2018	2017	2016	2015	2014
Asset Quality Ratios:					
Allowance for loan losses as a percent of total loans	1.31 %	1.36 %	1.35 %	1.43 %	1.42 %
Allowance for loan losses as a percent of nonperforming loans	218.18	206.64	182.76	150.37	145.96
Net charge-offs to average outstanding loans during the period	0.02	0.06	0.03	0.11	0.12
Non performing loans as a percent of total loans	0.60	0.66	0.74	0.95	0.97
Nonperforming assets as a percent of total assets	1.31	1.33	1.49	1.75	1.79
Other Data:					
Number of full service branch offices	16	14	14	14	15
Number of deposit accounts	37,736	33,594	33,407	33,430	34,049
Number of loans	7,228	5,679	5,409	5,373	5,482

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Overview

Income. Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and investments, and interest expense, which is the interest that we pay on our deposits and borrowings. Other significant sources of pre-tax income are service charges (mostly from service charges on deposit accounts and loan servicing fees), ATM and interchange fees on debit and credit cards, increases in the cash surrender value of life insurance, income from sales of residential mortgage and SBA loans originated for sale in the secondary market, commissions on sales of securities and insurance products, and net realized and unrealized gains on trading account securities. We also recognize income from the sale of investment securities.

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable incurred losses in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Expenses. The noninterest expenses we incur in operating our business consist of salaries and employee benefits expenses, occupancy expenses, data processing expenses, professional service fees, federal deposit insurance premiums, advertising, net losses on foreclosed real estate and other miscellaneous expenses. Salaries and employee benefits consist primarily of: salaries and wages paid to our employees; payroll taxes; and expenses for health insurance, retirement plans and other employee benefits. We also recognize annual employee compensation expenses related to our equity incentive plans as the equity incentive awards vest. Occupancy expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of depreciation charges, furniture and equipment expenses, maintenance, real estate taxes, office lease expense and costs of utilities. Depreciation of premises and equipment is computed using the straight-line method based on the useful lives of the related assets, which range from three to 40 years. Data processing expenses are the fees we pay to third parties for processing customer information, deposits and loans. Professional fees expense represents the fees we pay to third parties for legal, accounting, investment advisory and other consulting services. Federal deposit insurance premiums are payments we make to the FDIC to insure of our deposit accounts. Other expenses include expenses for office supplies, postage, telephone, insurance, regulatory assessments and other miscellaneous operating expenses.

Critical Accounting Policies

The accounting and reporting policies of the Company comply with accounting principles generally accepted in the United States of America ("U.S. GAAP") and conform to general practices within the banking industry. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. The financial position and results of operations can be affected by these estimates and assumptions, which are integral to understanding reported results. Critical accounting policies are those policies that require management to make assumptions about matters that are highly uncertain at the time an accounting estimate is made; and different estimates that the Company reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the Company's financial condition, changes in financial condition or results of operations. Most accounting policies are not considered by management to be critical accounting policies. Several factors are considered in determining whether or not a policy is critical in the preparation of financial statements. These factors include, among other things, whether the estimates are significant to the financial statements, the nature of the estimates, the ability to readily validate the estimates with other information including third parties or available prices, and sensitivity of the estimates to changes in economic conditions and whether alternative accounting methods may be utilized under generally accepted accounting principles. Significant accounting policies, including the impact of recent accounting pronouncements, are discussed in Note 1 of the Notes to Consolidated Financial Statements. The policies considered to be the critical accounting policies are described below.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover probable incurred losses in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance at least quarterly and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectability of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic or other conditions differ substantially from the assumptions used in making the evaluation. In addition, the banking regulators, as an integral part of their examination process, periodically review our allowance for loan losses and may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would adversely affect earnings. There were no substantive changes to the Company's methodology or assumptions used to estimate the allowance for loan losses during the year ended September 30, 2018. See Note 1 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding the methodology used to determine the allowance for loan losses.

Valuation Methodologies. In the ordinary course of business, management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active markets do not exist for the items being valued. Generally, in evaluating various assets for potential impairment, management compares the fair value to the carrying value. Quoted market prices are referred to when estimating fair values for certain assets, such as investment securities. However, for those items for which market-based prices do not exist, management utilizes significant estimates and assumptions to value such items. Examples of these items include loans held for sale, loan servicing rights, derivative financial instruments, goodwill and other intangible assets, foreclosed and other repossessed assets, estimated present value of impaired loans, value ascribed to stock-based compensation and certain other financial investments. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Company's results of operations. See Note 23 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information.

Deferred Tax Assets. Income tax expense involves estimates related to the valuation allowance on deferred tax assets. A valuation allowance reduces deferred tax assets to the amount management believes is more likely than not to be realized. In evaluating the realization of deferred tax assets, management considers the likelihood that sufficient taxable income of appropriate character will be generated within carryback and carryforward periods, including consideration of available tax planning strategies. See Note 19 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information.

Balance Sheet Analysis

Cash and Cash Equivalents. At September 30, 2018 and 2017, cash and cash equivalents totaled $42.3 million and $34.3 million, respectively. The Bank is required to maintain reserve balances on hand and with the Federal Reserve Bank, which are unavailable for investment but interest-bearing.

Loans. Our primary lending activity is the origination of loans secured by real estate. We originate one to four family mortgage loans, multifamily loans, commercial real estate loans, commercial business loans and construction loans. To a lesser extent, we originate various consumer loans including home equity lines of credit. Net loans increased $117.8 million, from $586.5 million at September 30, 2017 to $704.3 million at September 30, 2018, including loans acquired in the FNBO merger with a recorded investment of $34.5 million at acquisition.

At September 30, 2018, residential mortgage loans totaled $195.3 million, or 27.4% of total loans, compared to $171.9 million, or 28.9% of total loans at September 30, 2017. We generally originate loans for investment purposes, although, depending on the interest rate environment, we typically sell 25-year and 30-year fixed rate residential mortgage loans that we originate into the secondary market in order to limit exposure to interest rate risk and to earn noninterest income. Management intends to continue offering short-term adjustable rate residential mortgage loans and generally sell long-term fixed rate mortgage loans in the secondary market with servicing released.

Commercial real estate loans totaled $343.5 million, or 48.2% of total loans at September 30, 2018, compared to $273.1 million, or 46.0% of total loans at September 30, 2017. The balance of commercial real estate loans has increased primarily due to increased SBA commercial real estate loan originations and the previously discussed lending program that is focused on loans secured by low loan-to-value, single-tenant commercial properties that are generally leased to investment grade national brand retailers, the borrowers and collateral properties for which are outside of our primary market area. Management continues to focus on pursuing nonresidential loan opportunities in order to further diversify the loan portfolio.

Multi-family real estate loans totaled $28.8 million, or 4.0% of total loans at September 30, 2018, compared to $21.1 million, or 3.6% of total loans at September 30, 2017. These loans are primarily secured by apartment buildings and other multi-tenant developments in our primary market area.

Residential construction loans totaled $19.5 million, or 2.7% of total loans at September 30, 2018, of which $5.9 million were speculative construction loans. At September 30, 2017, residential construction loans totaled $15.1 million, or 2.5% of total loans, of which $4.1 million were speculative loans. The increase is due primarily to an increase in originations of residential construction loan during the year.

Commercial construction loans totaled $8.7 million, or 1.2% of total loans, at September 30, 2018 compared to $18.4 million, or 3.1% of total loans at September 30, 2017. The decrease is due primarily to a decrease in originations of commercial construction loans during the year.

Land and land development loans totaled $10.5 million, or 1.5% of total loans at September 30, 2018, compared to $9.7 million, or 1.6% of total loans at September 30, 2017. These loans are primarily secured by vacant lots to be improved for residential and nonresidential development, and farmland.

Commercial business loans totaled $67.8 million, or 9.5% of total loans, at September 30, 2017 compared to $52.7 million, or 8.9% of total loans, at September 30, 2017. The increase is due primarily to the increase of commercial business lending opportunities in our primary market area and increased SBA commercial business loan originations.

Management continues to focus on pursuing commercial business loan opportunities in order to further diversify the loan portfolio.

Consumer loans totaled $39.3 million, or 5.5% of total loans, at September 30, 2018 compared to $32.3 million, or 5.4% of total loans, at September 30, 2017. In general, organic consumer loans including automobile loans, home equity lines of credit, unsecured loans and loans secured by deposits, has only slightly increased due to pay-downs, payoffs, charge-offs and management's decision to focus on other lending opportunities with less inherent credit risk. Home equity lines of credit increased $1.7 million, or 7.4%, automobile loans increased $4.7 million, or 66.1%, and other consumer loans increased $595,000, or 25.6%, from September 30, 2017 to September 30, 2018.

The following table sets forth the composition of our loan portfolio at the dates indicated.

	At September 30,						
	2018		2017		2016		2015
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount
Real estate mortgage:							
Residential	$195,274	27.37 %	$171,863	28.92 %	$178,364	33.91 %	$181,873
Commercial	343,498	48.15	273,106	45.95	217,378	41.33	172,995
Multi-family	28,814	4.04	21,121	3.55	18,431	3.50	21,647
Residential construction	19,527	2.74	15,088	2.54	11,124	2.12	9,195
Commercial construction	8,669	1.22	18,385	3.09	19,212	3.65	7,477
Land and land development	10,504	1.47	9,733	1.64	11,137	2.12	11,061
Total	606,286	84.99	509,296	85.69	455,646	86.63	404,248
Commercial business	67,786	9.50	52,724	8.87	41,967	7.98	32,574
Consumer:							
Home equity lines of credit	24,635	3.46	22,939	3.86	21,372	4.06	19,499
Auto loans	11,720	1.64	7,057	1.19	4,880	0.93	5,487
Other	2,918	0.41	2,323	0.39	2,078	0.40	2,048
Total	39,273	5.51	32,319	5.44	28,330	5.39	27,034
Principal loans	713,345	100.00%	594,339	100.00%	525,943	100.00%	463,856
Deferred loan origination fees and costs, net	249		209		(211)		(120)
Allowance for loan losses	(9,323)		(8,092)		(7,122)		(6,624)
Loans, net	$704,271		$586,456		$518,611		$457,112

38

Loan Maturity

The following table sets forth certain information at September 30, 2018 regarding the dollar amount of loan principal repayments becoming due during the period indicated. The table does not include any estimate of prepayments which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

(In thousands)	At September 30, 2018 Residential Real Estate (1)	Commercial Real Estate (2)	Construction (3)	Commercial Business	Consumer	Total Loans
Amounts due in:						
One year or less	$19,043	$ 46,114	$ 28,196	$ 34,811	$ 6,700	$134,864
More than one year to five years	43,148	127,934	-	19,342	15,919	206,343
More than five years	161,897	179,954	-	13,633	16,654	372,138
Total	$224,088	$ 354,002	$ 28,196	$ 67,786	$ 39,273	$713,345

(1) Includes multi-family loans.

(2) Includes farmland and land and land development loans.

(3) Includes construction loans for which the Bank has committed to provide permanent financing.

Fixed vs. Adjustable Rate Loans

The following table sets forth the dollar amount of all loans at September 30, 2018 that are due after September 30, 2019, and have either fixed interest rates or adjustable interest rates. The amounts shown below exclude unearned loan origination fees.

(In thousands)	Fixed Rates	Adjustable Rates	Total
Residential real estate (1)	$ 92,011	$ 113,034	$205,045
Commercial real estate (2)	127,612	180,276	307,888
Commercial business	17,718	15,257	32,975
Consumer	5,622	26,951	32,573
Total	$ 242,963	$ 335,518	$578,481

(1) Includes multi-family loans.

(2) Includes farmland and land and land development loans.

Trading Account Securities. Our trading account securities represent an investment in a managed brokerage account that invests in small and medium lot, investment grade municipal bonds. The brokerage account is managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission. At September 30, 2017, trading account securities recorded at fair value totaled $7.2 million. The Bank ceased its trading account securities activity and liquidated this portfolio as of June 30, 2018.

Securities Available for Sale. Our available for sale securities portfolio consists primarily of U.S. government agency and sponsored enterprises securities, mortgage backed securities and collateralized mortgage obligations issued by U.S. government agencies and sponsored enterprises, municipal bonds, privately-issued collateralized mortgage obligations and asset-backed securities, and pass-through asset-backed securities guaranteed by the SBA. Available for sale securities increased by $6.3 million, from $178.1 million at September 30, 2017 to $184.4 million at September 30, 2018, due primarily to purchases of $50.0 million and securities acquired in the FNBO merger with a fair value of $40.0 million, which more than offset maturities and calls of $2.6 million, sales of $58.1 million and principal repayments of $16.8 million and a decrease in unrealized gains of $5.6 million.

Securities Held to Maturity. Our held to maturity securities portfolio consists of mortgage-backed securities issued by government sponsored enterprises and municipal bonds. Held to maturity securities decreased by $271,000 from September 30, 2017 to September 30, 2018, due primarily to maturities and principal repayments.

The following table sets forth the amortized costs and fair values of our investment securities at the dates indicated.

(In thousands)	At September 30, 2018 Amortized Cost	Fair Value	2017 Amortized Cost	Fair Value	2016 Amortized Cost	Fair Value
Securities available for sale:						
Agency bonds and notes	$-	$-	$-	$-	$1,024	$1,032
Agency mortgage-backed securities	31,686	31,130	36,439	36,736	46,376	47,405
Agency CMO	10,754	10,441	14,605	14,576	16,053	16,095
Privately-issued CMO	1,434	1,579	1,825	2,001	2,359	2,652
Privately-issued asset-backed	1,538	1,884	2,691	3,448	3,675	4,532
SBA certificates	1,305	1,351	913	912	1,220	1,227
Municipal	137,144	137,988	115,193	120,426	94,567	101,550
Total	$183,861	$184,373	$171,666	$178,099	$165,274	$174,493
Securities held to maturity:						
Agency mortgage-backed securities	$134	$142	$179	$195	$260	$283
Municipal	2,473	2,754	2,699	3,111	2,906	3,371
Total	$2,607	$2,896	$2,878	$3,306	$3,166	$3,654

40

The following table sets forth the stated maturities and weighted average yields of debt securities at September 30, 2018. Weighted average yields on tax-exempt securities are presented on a tax equivalent basis using a federal marginal tax rate of 24.5%. Certain mortgage-backed securities and collateralized mortgage obligations have adjustable interest rates and will reprice annually within the various maturity ranges. These repricing schedules are not reflected in the table below. Weighted average yield calculations on investments available for sale do not give effect to changes in fair value that are reflected as a component of equity.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
(Dollars in thousands)	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Securities available for sale:										
Agency mortgage-backed securities	$4,775	1.95%	$1,962	1.76%	$7,209	2.11%	$17,184	3.52 %	$31,130	2.84 %
Agency CMO	1,461	1.95	677	1.70	2,032	2.32	6,271	2.35	10,441	2.25
Privately-issued CMO	–	–	–	–	–	–	1,579	8.31	1,579	8.31
Privately-issued ABS	–	–	–	–	–	–	1,884	18.24	1,884	18.24
SBA certificates	–	–	–	–	1,351	4.06	–	–	1,351	4.06
Municipal	5,956	4.56	16,299	3.85	27,574	4.06	88,159	4.06	137,988	4.06
Total	$12,192	3.23%	$18,938	3.55%	$38,166	3.60%	$115,077	4.18 %	$184,373	3.93 %
Securities held to maturity:										
Agency mortgage-backed securities	$–	– %	$–	– %	$97	5.33%	$37	4.38 %	$134	5.07 %
Municipal	240	6.35	1,003	6.39	902	6.15	328	5.56	2,473	6.19
Total	$240	6.35%	$1,003	6.39%	$999	6.07%	$365	5.44 %	$2,607	6.13 %

As of September 30, 2018, we did not own any investment securities of a single issuer that had an aggregate book value in excess of 10% of the Company's consolidated stockholders' equity at that date, other than securities and obligations issued by U.S. government agencies and sponsored enterprises.

Deposits. Deposit accounts, generally obtained from individuals and businesses throughout our primary market area, are our primary source of funds for lending and investments. Our deposit accounts are comprised of noninterest-bearing accounts, interest-bearing savings, checking and money market accounts and time deposits. Deposits increased $141.7 million from $669.4 million at September 30, 2017 to $811.1 million at September 30, 2018, including deposits with a fair value of $91.8 million acquired in the FNBO merger. The Bank recognized increases in time deposits of $11.8 million, noninterest-bearing checking accounts of $71.4 million, money market deposit accounts of $36.3 million and savings accounts of $30.6 million and decreases interest-bearing checking accounts of $8.5 million, when comparing the two years. Brokered certificates of deposit totaled $118.7 million at September 30, 2018 compared to $106.9 million at September 30, 2017. We have continued to promote relationship oriented deposit accounts but at times also utilize brokered certificates of deposit as a lower cost alternative to retail time deposits. In addition, we have continued to develop and promote cash management services including sweep accounts and remote deposit capture in order to increase the level of commercial deposit accounts. We believe that the development and promotion of these products has made us more competitive in attracting commercial deposits during recent periods.

The following table sets forth the balances of our deposit accounts at the dates indicated.

	At September 30,		
(In thousands)	2018	2017	2016
Non-interest-bearing demand deposits	$167,705	$96,283	$79,859
NOW accounts	173,543	182,068	145,816
Money market accounts	107,124	70,775	60,702
Savings accounts	120,995	90,360	83,911
Time deposits	241,745	229,896	209,179
Total	$811,112	$669,382	$579,467

The following table indicates the amount of jumbo certificates of deposit by time remaining until maturity as of September 30, 2018. Jumbo certificates of deposit require minimum deposits of $100,000.

(In thousands)	Amount
Three months or less	$4,894
Over three through six months	5,153
Over six through twelve months	9,236
Over twelve months	24,625
Total	$43,908

Borrowings. We use borrowings from the FHLB consisting of advances and borrowings under a line of credit arrangement to supplement our supply of funds for loans and investments. We also utilize retail repurchase agreements as a source of borrowings.

The following table sets forth certain information regarding the Bank's use of FHLB borrowings.

	Year Ended September 30,		
(Dollars in thousands)	2018	2017	2016
Maximum amount of FHLB borrowings outstanding at any month-end during period	$159,863	$122,089	$121,633
Average FHLB borrowings outstanding during period	121,691	110,952	100,894
Weighted average interest rate during period	1.66 %	1.50 %	1.50 %
Balance outstanding at end of period	$90,000	$118,065	$121,633
Weighted average interest rate at end of period	1.63 %	1.54 %	1.50 %

The outstanding balance of borrowings from the FHLB decreased $28.1 million, from $118.1 million at September 30, 2017 to $90.0 million at September 30, 2018. FHLB borrowings are primarily used to fund loan demand and to purchase available for sale securities.

The following table sets forth certain information regarding the Bank's use of borrowings under retail repurchase agreements.

	Year Ended September 30,		
(Dollars in thousands)	2018	2017	2016
	$1,352	$1,348	$1,345

Maximum amount of retail repurchase agreements outstanding at any month-end during period			
Average retail repurchase agreements outstanding during period	1,350	1,346	1,343
Weighted average interest rate during period	0.25 %	0.25 %	0.25 %
Balance outstanding at end of period	$1,352	$1,348	$1,345
Weighted average interest rate at end of period	0.25 %	0.25 %	0.25 %

On September 20, 2018, the Company entered into a subordinated note purchase agreement in the principal amount of $20 million. The subordinated note initially bears a fixed interest rate of 6.02% per year through September 30, 2023, and thereafter a floating rate, reset quarterly, equal to the three-month LIBOR rate plus 310 basis points. All interest is payable quarterly and the subordinated note is scheduled to mature on September 30, 2028. The subordinated note is an unsecured subordinated obligation of the Company and may be repaid in whole or in part, without penalty, on or after September 30, 2023. The subordinated note is intended to qualify as Tier 2 capital for the Company under regulatory guidelines. The subordinated note had a carrying value of $19.7 million, net of unamortized debt issuance costs of 339,000, at September 30, 2018 on the balance sheet of the Consolidated Financial Statements.

Stockholders' Equity. Stockholders' equity increased $5.7 million, from $93.1 million at September 30, 2017 to $98.8 million at September 30, 2018. The increase is due to an increase in retained net income of $8.9 million during the year ended September 30, 2018 partially offset by a $3.8 million decrease in accumulated other comprehensive income due to a decrease in the market value of available-for-sale securities.

Results of Operations for the Years Ended September 30, 2018, 2017 and 2016

Overview. The Company reported net income of $10.9 million ($4.60 per common share diluted) for the year ended September 30, 2018, compared to net income of $9.3 million ($3.97 per common share diluted) for the year ended September 30, 2017. The increase in net income was due to increases in net interest income of $6.4 million and noninterest income of $4.7 million offset by an increase in noninterest expense of $8.1 million.

Net income increased to $9.3 million ($3.97 per common share diluted) for the year ended September 30, 2017 compared to net income of $7.9 million ($3.41 per common share diluted) for the year ended September 30, 2016. During the year ended September 30, 2016, the Company recognized a $4.7 million historic structure rehabilitation tax credit related to its equity investment in a community-based economic development ("CBED") project, which resulted in a net tax benefit of $2.3 million for the year. As a result of the recognition of the tax credit, the Company also recognized a $4.2 million impairment loss in noninterest income during the year ended September 30, 2016 related to the equity investment in the CBED project. The net impact of the tax benefit and the impairment loss was a $332,000 increase in net income for the year ended September 30, 2016. During the year ended September 30, 2016, the Company also recognized $2.0 million in other income related to the gain on sale of its commercial real estate development in New Albany, Indiana ("Wesley Commons").

Net Interest Income. For the year ended September 30, 2018, net interest income increased $6.4 million or 21.6%, as compared to 2017, primarily as the result of an increase in the average balance of interest earning assets. The interest rate spread, the difference between the average tax-equivalent yield on interest-earning assets and the average cost of interest-bearing liabilities, decreased slightly from 3.84% for 2017 to 3.82% for 2018 due primarily to an increase in the average cost of interest-bearing liabilities from 0.68% for 2017 to 0.85% for 2018 and an increase in average interest-bearing liabilities from $654.4 million for 2017 to $743.3 million for 2018, which more than offset the effect of an increase in the average yield on interest-bearing assets from 4.52% for 2017 to 4.67% for 2018 and an increase in the average balance of interest-bearing assets from $786.6 million for 2017 to $929.2 million for 2018. For the year ended September 30, 2017, net interest income increased $4.2 million or 16.5% as compared 2016, primarily as the result of an increase in the average balance of interest earning assets and an increase in the interest rate spread from 2016 to 2017. The interest rate spread increased from 3.71% for 2016 to 3.84% for 2017 due primarily to an increase in the average balance of interest-bearing assets from $696.6 million for 2016 to $786.7 million for 2017 and a decrease in the average cost of interest-bearing liabilities from 0.70% for 2016 to 0.68% for 2017.

For the year ended September 30, 2018, total interest income increased $8.2 million, or 24.3%, as compared to 2017. The increase in total interest income is due primarily to an increase in the average balance of interest earning assets of $142.6 million, from $786.6 million for 2017 to $929.2 million for 2018, and the average tax-equivalent yield on interest-earning assets increased from 4.52% for 2017 to 4.67% for 2018. The increase in the average balance of interest-earning assets primarily relates to increases in the average balance of loans of $123.6 million and securities of $13.6 million. For the year ended September 30, 2017, total interest income increased $4.4 million, or 15.1%, from $29.5 million for the year ended September 30, 2016 to $33.9 million for the year ended September 30, 2017. The increase in total interest income is due primarily to an increase in the average balance of interest earning assets of $90.0 million, from $696.6 million for 2016 to $786.6 million for 2017, and the average tax-equivalent yield on interest-earning assets increased from 4.41% for 2016 to 4.52% for 2017. The increase in the average balance of interest-earning assets primarily relates to increases in the average balance of loans of $86.3 million and interest-bearing deposits with banks of $4.4 million.

Interest income on loans increased $7.0 million, or 25.7%, from $27.1 million for 2017 to $34.1 million for 2018, due primarily to an increase in the average balance of loans outstanding of $123.6 million, from $575.0 million for 2017 to $698.6 million, and an increase in the average tax-equivalent yield on loans from 4.73% for 2017 to 4.89% for 2018. In 2017, interest income on loans increased $4.2 million, or 18.4%, from $22.9 million for 2016 to $27.1 million for 2017, due primarily to an increase in the average balance of loans outstanding of $86.3 million, from $488.7 million for 2016 to $575.0 million for 2017, and an increase in the average tax-equivalent yield on loans from 4.70% for 2016 to 4.73% for 2017. The increase in the average balance of loans outstanding for both 2018 and 2017 is due primarily to an increase in commercial real estate mortgage loans, as a result of increased SBA loan originations and the previously discussed lending program that is focused on loans secured by low loan-to-value, single-tenant commercial properties that are generally leased to investment grade national-brand retailers, the borrowers and collateral properties for which are outside of our primary market area.

Interest income on investment securities increased $874,000, or 13.8%, from $6.3 million for 2017 to $7.2 million for 2018, primarily due to the increase in the average balance of investment securities of $13.6 million, from $178.9 million for 2017 to $192.5 million for 2018. The average tax equivalent yield on investment securities decreased from 4.40% for 2017 to 4.34% for 2018 due primarily to the decrease in the federal marginal income tax rate from 34.0% for 2017 to a blended rate of 24.5% for 2018. In 2017, interest income on investment securities increased $166,000, or 2.7%, from $6.2 million for 2016 to $6.3 million for 2017, despite a decrease in the average balance of investment securities of $682,000, from $179.6 million for 2016 to $178.9 million for 2017, due to an increase in the average tax-equivalent yield on investment securities.

Total interest expense increased $1.9 million, or 42.2%, due primarily to an increase in the average balance of interest-bearing liabilities of $88.9 million, from $654.4 million for 2017 to $743.3 million for 2018, and an increase in the average cost of funds from 0.68% for 2017 to 0.85% for 2018. The average balance of interest-bearing deposits increased $79.8 million, or 14.8%, from $539.9 million for 2017 to $619.7 million for 2018, and the average cost of funds was 0.51% for 2017 compared to 0.69% for 2018. The average balance of borrowings increased $9.2 million, or 8.0%, from $114.4 million for 2017 to $123.6 million for 2018, and the average cost of funds for borrowings was 1.48% for 2017 compared to 1.66% for 2018. In 2016, total interest expense increased $290,000, or 6.9%, due primarily to an increase in the average balance of interest-bearing liabilities of $63.3 million, from $591.1 million for 2016 to $654.4 million for 2017, which more than offset a decrease in the average cost of funds from 0.70% for 2016 to 0.68% for 2017. The average balance of interest-bearing deposits increased $55.7 million, or 11.5%, from $484.2 million for 2016 to $539.9 million for 2017, and the average cost of funds for deposits was 0.51% for both 2016 and 2017. The average balance of borrowings increased $7.5 million, or 7.1%, from $106.9 million for 2016 to $114.4 million for 2017, and the average cost of funds for borrowings was 1.57% for 2016 compared to 1.48% for 2017.

Average Balances and Yields.

The following tables present information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Nonaccrual loans are included in average balances only. Loan fees are included in interest income on loans and are not material. Tax exempt income on loans and investment securities for the 2018, 2017 and 2016 periods has been adjusted to a tax equivalent basis using a federal marginal tax rate of 24.5%, 34.0% and 34.0%, respectively.

	Year Ended September 30,											
	2018				2017				2016			
(Dollars in thousands)	Average Balance	Interest and Dividends	Yield/ Cost		Average Balance	Interest and Dividends	Yield/ Cost		Average Balance	Interest and Dividends	Yield/ Cost	
Assets:												
Interest-bearing deposits with banks	$28,863	$436	1.51	%	$25,835	$184	0.71	%	$21,481	$109	0.51	%
Loans	698,638	34,130	4.89		574,957	27,188	4.73		488,702	22,955	4.70	
Investment securities	154,764	7,333	4.74		137,756	6,993	5.08		130,947	6,346	4.85	
Mortgage-backed securities	37,799	1,020	2.70		41,167	886	2.15		48,658	1,018	2.09	
FRB and FHLB stock	9,183	465	5.06		6,936	313	4.51		6,859	310	4.52	
Total interest-earning assets	929,247	43,384	4.67		786,651	35,564	4.52		696,647	30,738	4.41	
Non-interest-earning assets	56,921				56,520				67,843			
Total assets	$986,168				$843,171				$764,490			
Liabilities and equity:												
NOW accounts	$185,026	$483	0.26		$171,831	$404	0.24		$147,851	$306	0.21	
Money market deposit accounts	89,256	624	0.70		65,016	199	0.31		57,857	148	0.26	
Savings accounts	110,289	85	0.08		88,418	63	0.07		80,001	57	0.07	
Time deposits	235,100	3,087	1.31		214,673	2,096	0.98		198,522	1,979	1.00	
Total interest-bearing deposits	619,671	4,279	0.69		539,938	2,762	0.51		484,231	2,490	0.51	
Borrowings (1)	123,634	2,058	1.66		114,436	1,695	1.48		106,852	1,677	1.57	
Total interest-bearing liabilities	743,305	6,337	0.85		654,374	4,457	0.68		591,083	4,167	0.70	

Non-interest-bearing deposits	137,742			93,083			75,368		
Other non-interest-bearing liabilities	8,760			7,563			10,491		
Total liabilities	899,807			755,020			676,942		
Total stockholders' equity	95,889			88,151			87,548		
Noncontrolling interests in subsidiary	472			-			-		
Total equity	96,361			88,151			87,548		
Total liabilities and equity	$986,168			$843,171			$764,490		
Net interest income (taxable equivalent basis		37,047			31,107			26,571	
Less: taxable equivalent adjustment		(1,225)			(1,647)			(1,282)	
Net interest income		$35,822			$29,460			$25,289	
Interest rate spread			3.82 %			3.84 %			3.71 %
Net interest margin			3.99			3.95			3.81
Average interest-earning assets to average interest-bearing liabilities			125.02			120.21			117.86

(1) Includes FHLB borrowings, repurchase agreements and other long-term debt.

45

Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. Changes attributable to changes in both rate and volume have been allocated proportionally based on the absolute dollar amounts of change in each.

	Year Ended September 30, 2018 Compared to Year Ended September 30, 2017 Increase (Decrease) Due to			Year Ended September 30, 2017 Compared to Year Ended September 30, 2016 Increase (Decrease) Due to		
(In thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Interest-bearing deposits with banks	$ 23	$ 229	$ 252	$ 25	$ 50	$ 75
Loans	5,999	943	6,942	4,086	147	4,233
Investment securities	742	(402)	340	338	309	647
Mortgage-backed securities	(63)	197	134	(162)	30	(132)
Other interest-earning assets	110	42	152	5	(2)	3
Total interest-earning assets	6,811	1,009	7,820	4,292	534	4,826
Interest expense:						
Deposits	473	1,044	1,517	272	-	272
Borrowings (1)	144	219	363	89	(71)	18
Total interest-bearing liabilities	617	1,263	1,880	361	(71)	290
Net increase (decrease) in net interest income (taxable equivalent basis)	$ 6,194	$ (254)	$ 5,940	$ 3,931	$ 605	$ 4,536

(1) Includes FHLB borrowings, repurchase agreements and other long-term debt.

Provision for Loan Losses. The provision for loan losses increased $52,000, or 4.0%, from $1.3 million for the year ended September 30, 2017 to $1.4 million for the year ended September 30, 2018 due primarily to an increase in total loans of $84.5 million (excluding loans acquired in the FNBO merger). Net charge-offs in 2018 were $122,000 compared to $331,000 for 2017 and nonperforming loans increased $357,000 to $4.3 million at September 30, 2018. In 2017, the provision for loan losses increased $664,000, or 104.2%, from $637,000 for the year ended September 30, 2016 to $1.3 million for the year ended September 30, 2017 due primarily to an increase in the total loan portfolio of $68.4 million. Net charge-offs in 2017 were $331,000 compared to $139,000 for 2016 and nonperforming loans increased $19,000 to $3.9 million at September 30, 2017. The consistent application of management's allowance for loan losses methodology resulted in an increase in the level of the allowance for loan losses for 2018 consistent with the growth in the commercial real estate mortgage loan portfolio. See "*Analysis of Nonperforming and Classified Assets*" included herein. It is management's assessment that the allowance for loan losses at September 30, 2018 was adequate and appropriately reflected the probable incurred losses in the Bank's loan portfolio at that date.

Noninterest Income. Noninterest income increased $4.7 million, or 54.1%, from $8.6 million for the year ended September 30, 2017 to $13.3 million for the year ended September 30, 2018. The increase was due primarily to increases in mortgage banking income, net gain on sales of SBA loans, income on tax credit investments, service charges on deposit accounts, and other income of $1.8 million, $1.3 million, $811,000, $376,000 and $386,000, respectively. The increase in mortgage banking income is due to the production from the newly hired secondary-market residential mortgage lending staff previously discussed. The net gain on sales of loans guaranteed by the SBA was $5.5 million for the year ended September 30, 2018, compared to $4.2 million for the same period in 2017, and the increase is due to increased production and sales volume. The Company recognized income on tax credit investment of $585,000 for the year ended September 30, 2018 related to distributions receivable from the tax credit investment entity, compared to an impairment loss of $226,000 on the investment in the entity for 2017. The increase in service charges on deposit accounts is due primary to the deposit accounts acquired in the FNBO merger. In 2017, noninterest income increased $5.4 million, or 155.8%, from $3.4 million for the year ended September 30, 2016 to $8.6 million for the year ended September 30, 2017. The increase was due primarily to a $4.2 million impairment loss on a historic tax credit investment during the year ended September 30, 2016 compared to a $226,000 loss in 2017, as well as an increase in net gain on sales of loans guaranteed by the SBA of $3.5 million.

The total net gain on sales of loans guaranteed by the SBA was $4.2 million for the year ended September 30, 2017 as compared to $715,000 for the year ended September 30, 2016. The aforementioned increases in noninterest income were offset by decreases in the net gain on sale of real estate development and net gain on trading account securities of $1.9 million and $548,000, respectively. The decrease in the net gain on sale of real estate development is due to the sale of Wesley Commons in September 2016. The net gain on trading account securities was $200,000 for the year ended September 30, 2017 as compared to $748,000 for the year ended September 30, 2016.

Noninterest Expense. Noninterest expenses increased $8.0 million, or 32.3%, from $25.0 million for the year ended September 30, 2017 to $33.0 million for the year ended September 30, 2018. The increase was due primarily to increases in compensation and benefits, data processing, other operating expenses and occupancy and equipment of $4.6 million, $1.1 million, $933,000 and $841,000, respectively, which included merger-related expenses and initial operating expenses of the secondary-market residential mortgage lending division, as provided in the table below.

(In thousands)	**Compensation & Benefits**	**Data Processing**	**Other Operating**	**Occupancy & Equipment**
Increase	$ 4,641	$ 1,068	$ 933	$ 841
Less: Merger-related expenses	83	839	43	72
Less: Initial secondary-market residential mortgage division operating expenses	475	-	30	58
	$ 4,083	$ 229	$ 860	$ 711

The increase in compensation and benefits expense is attributable to the addition of new employees to support the growth of the Company, including its SBA and secondary-market residential mortgage lending activities, compensation for the employees retained in the FNBO merger, and normal salary and benefits adjustments. The increase in data processing expense is primarily attributable to costs associated with the FNBO merger. The increase in occupancy and equipment expense is primarily attributable to increases in repairs, maintenance and software licensing expenses. In 2017, noninterest expenses increased $2.6 million, or 11.2%, from $22.4 million for the year ended September 30, 2016 to $25.0 million for the year ended September 30, 2017. The increase was due primarily to an increase in compensation and benefits of $2.2 million, which more than offset a decrease in data processing of $230,000. The increase in compensation and benefits was attributable to the addition of new employees to support the Company's SBA lending activities as well as normal salary and benefits increases. The decrease in data processing was primarily due to new contracts signed in 2017, which resulted in a decrease in monthly processing fees.

Income Tax Expense. The Company recognized income tax expense of $2.4 million for the year ended September 30, 2018, compared to income tax expense of $2.5 million for the year ended September 30, 2017 and an income tax benefit of $2.3 million for the year ended September 30, 2016. The effective tax rate was 16.4% and 21.3%, for the years ended September 30, 2018 and 2017, respectively. The decrease in the effective tax rate is due primarily to a reduction in the Company's statutory federal income tax rate from 34.0% for 2017 to a blended rate of 24.5% for 2018 as a result of the Tax Act enacted in December 2017, and net income attributable to noncontrolling interests of $1.4 million, which is pass-through income not subject to income tax at the entity level. The Company files federal income tax returns on a fiscal year basis and, in accordance with Internal Revenue Code regulations, the Company's federal income tax rate for the tax year ended September 30, 2018 is based on a blended rate of 24.5%. The tax benefit for 2016 was due to the aforementioned recognition of the $4.7 million tax credit as a result of the CBED project investment.

Risk Management

Overview. Managing risk is essential to successfully managing a financial institution. Our most prominent risk exposures are credit risk, interest rate risk and market risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of interest income as a result of changes in interest rates. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available-for-sale securities that are accounted for on a mark-to-market basis. Other risks that we face are operational risks, liquidity risks and reputation risk. Operational risks include risks related to fraud, regulatory compliance, processing errors, technology and disaster recovery. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or revenue or in the value of our common stock. The Company has implemented an enterprise risk management structure in order to better manage and mitigate these identified and perceived risks.

Credit Risk Management. Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans.

When a borrower fails to make a required loan payment, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status. When the loan becomes 15 days past due, a late notice is sent to the borrower and a late fee is assessed. When the loan becomes 30 days past due, a more formal letter is sent. Between 15 and 30 days past due, telephone calls are also made to the borrower. After 30 days, we regard the borrower as in default. The borrower may be sent a letter from our attorney and we may commence collection proceedings. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure. Generally, when a consumer loan becomes 60 days past due, we institute collection proceedings and attempt to repossess any personal property that secures the loan. Generally, we institute foreclosure proceedings when a loan is 60 days past due. Management obtains the approval of the Board of Directors to proceed with foreclosure of property. Management informs the Board of Directors monthly of all loans in nonaccrual status, all loans in foreclosure and all repossessed property and assets that we own.

Analysis of Nonperforming and Classified Assets. We consider nonaccrual loans, troubled debt restructurings (“TDRs”), repossessed assets and loans that are 90 days or more past due to be nonperforming assets. Loans are generally placed on nonaccrual status when they become 90 days delinquent at which time the accrual of interest ceases and the allowance for any uncollectible accrued interest is established and charged against operations. Typically, payments received on a nonaccrual loan are first applied to the outstanding principal balance.

Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as other real estate owned until it is sold. When property is acquired it is recorded at its fair market value, less estimated costs to sell, at the date of foreclosure. Holding costs and declines in fair value after acquisition of the property result in charges against income.

The following table provides information with respect to our nonperforming assets at the dates indicated. Included in nonperforming loans are loans for which the Bank has modified the repayment terms, and therefore are considered to be TDRs. The Bank had 32 TDRs totaling $9.1 million, which were performing according to their terms and on accrual status, as of September 30, 2018.

	At September 30,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Nonaccrual loans	$4,182	$3,823	$3,875	$4,153	$3,804
Accruing loans past due 90 days or more	91	93	22	252	478
Total nonperforming loans:	4,273	3,916	3,897	4,405	4,282
Performing TDRs	9,145	7,041	7,486	8,090	7,537
Real estate owned	103	852	519	618	953
Other nonperforming assets	–	–	–	–	12
Total nonperforming assets	$13,521	$11,809	$11,902	$13,113	$12,784
Total nonperforming loans to total loans	0.60 %	0.66 %	0.74 %	0.95 %	0.97 %
Total nonperforming loans to total assets	0.41	0.44	0.49	0.59	0.60
Total nonperforming assets to total assets	1.31	1.33	1.49	1.75	1.79

Federal and state banking regulations require us to review and classify our assets on a regular basis. In addition, the Bank's regulators have the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. "Substandard assets" must have one or more defined weaknesses and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. "Doubtful assets" have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified "loss" is considered uncollectible and of such little value that continuance as an asset of the institution, without establishment of a specific allowance or charge-off, is not warranted. The regulations also provide for a "special mention" category, described as assets which do not currently expose us to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving our close attention. When we classify an asset as doubtful we may establish a specific allowance for loan losses. If we classify an asset as loss, we charge off an amount equal to 100% of the portion of the asset classified loss.

Classified assets includes loans that are classified due to factors other than payment delinquencies, such as lack of current financial statements and other required documentation, insufficient cash flows or other deficiencies, and, therefore, are not included as nonperforming assets. Other than as disclosed in the above tables, there are no other loans where management has serious doubts about the ability of the borrowers to comply with the present loan repayment terms. Classified assets also include investment securities that have experienced a downgrade of the security's credit quality rating by various rating agencies.

At September 30, 2018, the Company held fourteen privately-issued CMO and ABS securities with an aggregate carrying value of $1.3 million and fair value of $1.6 million that have been downgraded to a substandard regulatory classification due to a downgrade of the security’s credit quality rating by various rating agencies. Based on an independent third party analysis, the Bank expects to collect the contractual principal and interest cash flows for these securities and, as a result, no other-than-temporary impairment has been recognized on the privately-issued CMO or ABS portfolios. At September 30, 2017, the Company held fifteen privately-issued CMO and ABS securities with an aggregate carrying value of $1.8 million and fair value of $2.4 million that had been downgraded to a substandard regulatory classification due to a downgrade of the security’s credit quality rating by various rating agencies.

Analysis and Determination of the Allowance for Loan Losses.

The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. We evaluate the need to establish allowances against losses on loans on at least a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of a specific allowance for impaired loans and a general allowance on the remainder of the loan portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available to absorb losses in the loan portfolio.

Specific Allowance for Impaired Loans. We consider loans classified as substandard or doubtful and TDRs to be impaired and establish a specific allowance when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of the loan.

General Allowance on the Remainder of the Loan Portfolio. We establish a general allowance for loans that are not currently classified as impaired in order to recognize the inherent losses associated with lending activities. The general allowance covers unimpaired loans and is based on historical loss experience adjusted for qualitative factors such as changes in economic conditions, changes in the volume of past due and nonaccrual loans and classified assets, changes in the nature and volume of the portfolio, changes in the value of underlying collateral for collateral dependent loans, concentrations of credit, and other factors.

The following table sets forth the breakdown of the allowance for loan losses by loan category at the dates indicated.

	At September 30, 2018			2017			2016		
(Dollars in thousands)	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total *Loans*
Residential real estate	$274	2.94 %	27.37 %	$252	3.11 %	28.92 %	$335	4.70 %	33.91 %
Commercial real estate	6,825	73.21	48.15	5,739	70.92	45.95	5,160	72.46	41.33
Multi-family	195	2.09	4.04	106	1.31	3.55	109	1.53	3.50
Construction	580	6.22	3.96	810	10.01	5.63	845	11.86	5.77

Land and land development.	210	2.25	1.47	223	2.76	1.64	295	4.14	2.12
Commercial business	1,041	11.17	9.50	839	10.37	8.87	284	3.99	7.98
Consumer	198	2.12	5.51	123	1.52	5.44	94	1.32	5.39
Total allowance for loan losses	$9,323	100.00 %	100.00 %	$8,092	100.00 %	100.00 %	$7,122	100.00 %	100.00 %

	At September 30, 2015			2014		
(Dollars in thousands)	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans
Residential real estate	$444	6.70 %	39.22 %	$577	9.23 %	41.51 %
Commercial real estate	4,327	65.32	37.29	3,808	60.93	34.97
Multi-family	156	2.36	4.67	146	2.34	4.84
Construction	551	8.32	3.59	443	7.09	3.78
Land and land development.	369	5.57	2.38	302	4.83	2.57
Commercial business	678	10.24	7.02	795	12.72	6.46
Consumer	99	1.49	5.83	179	2.86	5.87
Total allowance for loan losses	$6,624	100.00 %	100.00 %	$6,250	100.00 %	100.00 %

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with generally accepted accounting principles, there can be no assurance that the banking regulators, in reviewing our loan portfolio, will not require us to increase our allowance for loan losses. The banking regulators may require us to increase our allowance for loan losses based on judgments different from ours. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

Analysis of Loan Loss Experience. The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	Year Ended September 30,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Allowance for loan losses at beginning of period	$8,092	$7,122	$6,624	$6,250	$5,538
Provision for loan losses	1,353	1,301	637	859	1,246
Charge offs:					
Residential real estate	98	169	207	283	278
Commercial real estate	–	–	–	40	224
Multi-family	–	–	–	–	–
Construction	–	–	–	–	–
Land and land development	–	–	–	–	–
Commercial business	–	200	10	126	234
Consumer	223	116	108	144	136
Total charge-offs	321	485	325	593	872
Recoveries:					
Residential real estate	106	71	115	41	28
Commercial real estate	–	10	–	–	219
Multi-family	–	–	–	–	–
Land and land development	–	–	–	–	–
Construction	–	–	–	–	–
Commercial business	12	17	1	1	–
Consumer	81	56	70	66	91
Total recoveries	199	154	186	108	338
Net charge-offs	122	331	139	485	534
Allowance for loan losses at end of period	$9,323	$8,092	$7,122	$6,624	$6,250
Allowance for loan losses to nonperforming loans	218.18%	206.64%	182.76%	150.37%	145.96%

Allowance for loan losses to total loans outstanding at the end of the period	1.31	1.36	1.35	1.43	1.42
Net charge-offs to average loans outstanding during the period	0.02	0.06	0.03	0.11	0.12

51

Interest Rate Risk Management. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: adjusting the maturities of borrowings; adjusting the investment portfolio mix and duration and generally selling in the secondary market substantially all newly originated, fixed rate one-to four-family residential real estate loans. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments, other than the use of forward mortgage loan sale contracts in connection with our mortgage banking activities. See Note 22 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding derivative financial instruments.

We have an Asset/Liability Management Committee, which includes members of management selected by the Board of Directors, to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income and net income.

Market Risk Analysis. An element in our ongoing interest rate risk management process is to measure and monitor interest rate risk using a Net Interest Income at Risk simulation to model the interest rate sensitivity of the balance sheet and to quantify the impact of changing interest rates on the Company. The model quantifies the effects of various possible interest rate scenarios on projected net interest income over a one-year horizon. The model assumes a semi-static balance sheet and measures the impact on net interest income relative to a base case scenario of hypothetical changes in interest rates over twelve months and provides no effect given to any steps that management might take to counter the effect of the interest rate movements. The scenarios include prepayment assumptions, changes in the level of interest rates, the shape of the yield curve, and spreads between market interest rates in order to capture the impact from re-pricing, yield curve, option, and basis risks.

Results of our simulation modeling, which assumes an immediate and sustained parallel shift in market interest rates, project that the Company's net interest income could change as follows over a one-year horizon, relative to our base case scenario, based on September 30, 2018 and 2017 financial information.

Immediate Change in the Level of Interest Rates	At September 30, 2018 One Year Horizon		At September 30, 2017 One Year Horizon	
	Dollar Change	Percent Change	Dollar Change	Percent Change
	(Dollars in thousands)			
300bp	$(1,821)	(4.92)%	$ 319	1.04 %
200bp	764	2.06	332	1.08
100bp	410	1.11	155	0.51
Static	-	-	-	-
(100)bp	(415)	(1.12)	(463)	(1.51)

At September 30, 2018, our simulated exposure to an increase in interest rates shows that an immediate and sustained increase in rates of 1.00% will increase our net interest income by $410,000 or 1.11% over a one year horizon compared to a flat interest rate scenario. Furthermore, rate increases of 2.00% and 3.00% would cause net interest income to increase by 2.06% and decrease by 4.92%, respectively. An immediate and sustained decrease in rates of 1.00% will decrease our net interest income by $415,000, or 1.12%, over a one year horizon compared to a flat interest rate scenario.

The Company also has longer term interest rate risk exposure, which may not be appropriately measured by Net Interest Income at Risk modeling, and therefore uses an Economic Value of Equity ("EVE") interest rate sensitivity analysis in order to evaluate the impact of its interest rate risk on earnings and capital. This is measured by computing the changes in net EVE for its cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. EVE modeling involves discounting present values of all cash flows for on and off balance sheet items under different interest rate scenarios and provides no effect given to any steps that management might take to counter the effect of the interest rate movements. The discounted present value of all cash flows represents the Company's EVE and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. The amount of base case EVE and its sensitivity to shifts in interest rates provide a measure of the longer term re-pricing and option risk in the balance sheet.

Results of our simulation modeling, which assumes an immediate and sustained parallel shift in market interest rates, project that the Company's EVE could change as follows, relative to our base case scenario, based on September 30, 2018 and 2017 financial information.

	At September 30, 2018				
Immediate Change	Economic Value of Equity			Economic Value of Equity as a	
in the Level	Dollar	Dollar	Percent	Percent of Present Value of Assets	
of Interest Rates	Amount	Change	Change	EVE Ratio	Change
	(Dollars in thousands)				
300bp	$ 138,241	$ (38,592)	(21.82)%	15.55 %	(222)bp
200bp	162,949	(13,884)	(7.85)	17.68	(9)bp
100bp	171,236	(5,597)	(3.17)	17.86	9 bp
Static	176,833	-	-	17.77	- bp
(100)bp	176,695	(138)	(0.08)	17.18	(59)bp

	At September 30, 2017				
Immediate Change	Economic Value of Equity			Economic Value of Equity as a	
in the Level	Dollar	Dollar	Percent	Percent of Present Value of Assets	
of Interest Rates	Amount	Change	Change	EVE Ratio	Change
	(Dollars in thousands)				
300bp	$ 128,282	$ (11,951)	(8.52)%	16.20 %	33 bp
200bp	135,642	(4,591)	(3.27)	16.48	61 bp
100bp	140,196	(37)	(0.03)	16.41	54 bp
Static	140,233	-	-	15.87	- bp
(100)bp	132,724	(7,509)	(5.35)	14.66	(121)bp

The previous table indicates that at September 30, 2018, the Company would expect a decrease in its EVE in the event of a sudden and sustained 100, 200 and 300 basis point increase and/or 100 basis point decrease in prevailing interest rates. The expected decrease in the Company's EVE given a larger increase in rates is primarily attributable to the relatively high percentage of fixed-rate loans in the Company's loan portfolio, which at September 30, 2018 comprised approximately 42.0% of the loan portfolio.

The models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect the Company's net interest income and EVE. For this reason, we model many different combinations of interest rates and balance sheet assumptions to understand its overall sensitivity to market interest rate changes. Therefore, as with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing tables and it is recognized that the model outputs are not guarantees of actual results. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from time deposits could deviate significantly from those assumed in calculating the table.

Liquidity Management. Liquidity is the ability to meet current and future short-term financial obligations. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of investment securities and borrowings from the FHLB. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

The Bank regularly adjusts its investments in liquid assets based upon its assessment of (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities and (4) the objectives of our asset/liability management policy.

The Bank's most liquid assets are cash and cash equivalents and interest-bearing deposits. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At September 30, 2018, cash and cash equivalents totaled $42.3 million. Securities classified as available-for-sale, amounting to $184.4 million, at September 30, 2018, provide additional sources of liquidity. At September 30, 2018, we had the ability to borrow a total of approximately $192.8 million from the FHLB, of which $90.0 million was borrowed and outstanding. In addition, we had the ability to borrow the lesser of $20 million or 25% of the Bank's equity capital, excluding reserves, using a federal funds purchased line of credit facility with another financial institution at September 30, 2018. We also had a second federal funds line of credit facility with another financial institution from which we had the ability to borrow an additional $15 million. The Bank had no outstanding federal funds purchased under either facility at September 30, 2018.

At September 30, 2018, the Bank had $131.6 million in commitments to extend credit outstanding, excluding interest rate lock commitments for residential mortgage loans intended for sale in the secondary market that meet the definition of a derivative. Time deposits due within one year of September 30, 2018 totaled $170.3 million, or 70.4% of time deposits. We believe the large percentage of time deposits that mature within one year reflects customers' hesitancy to invest their funds for long periods due to the recent low interest rate environment and local competitive pressure. If these maturing time deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the time deposits due on or before September 30, 2019. We believe, however, based on past experience that a significant portion of our time deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

The Company is a separate legal entity from the Bank and must provide for its own liquidity to pay its operating expenses and other financial obligations, to pay any dividends and to repurchase any of its outstanding common stock. The Company's primary source of income is dividends received from the Bank. The amount of dividends that the Bank may declare and pay to the Company in any calendar year, without the receipt of prior approval from banking regulators, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. At September 30, 2018, the Company had liquid assets of $10.2 million on a stand-alone, unconsolidated basis.

Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts and FHLB borrowings. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive. Occasionally, we offer promotional rates on certain deposit products to attract deposits.

Capital Management. The Bank is subject to various regulatory capital requirements administered by the federal banking agencies, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2018, the Bank exceeded all of its regulatory capital requirements. The Bank is considered “well capitalized” under regulatory guidelines. See *“Item 1. Business — Regulation and Supervision — Regulation of Federal Savings Associations — Capital Requirement.”*

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers’ requests for funding and take the form of loan commitments and lines of credit.

For the year ended September 30, 2018, we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Effect of Inflation and Changing Prices

The consolidated financial statements and related financial data presented in this annual report have been prepared according to accounting principles generally accepted in the United States, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution’s performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is incorporated herein by reference to Part II, *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation."*

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this item is included herein beginning on page F-1.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The system of internal control over financial reporting as it relates to the consolidated financial statements is evaluated for effectiveness by management. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed First Savings Financial Group, Inc.'s system of internal control over financial reporting as of September 30, 2018, in relation to criteria for effective internal control over financial reporting as described in the 2013 "Internal Control Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that, as of September 30, 2018, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control Integrated Framework".

(c) Changes to Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2018 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information relating to the directors and officers of the Company, information regarding compliance with Section 16(a) of the Exchange Act and information regarding the audit committee and audit committee financial expert is incorporated herein by reference to the sections captioned "Item 1 – Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," and "Audit Committee" in the Company's Proxy Statement for the 2019 Annual Meeting of Stockholders (the "Proxy Statement").

The Company has adopted a code of ethics and business conduct which applies to all of the Company's and the Bank's directors, officers and employees. A copy of the code of ethics and business conduct is available to stockholders on the Investor Relations portion of the Bank's website at www.fsbbank.net.

Item 11. EXECUTIVE COMPENSATION

The information regarding executive compensation is incorporated herein by reference to the sections captioned "Director Compensation" and "Executive Compensation" in the Proxy Statement.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the section captioned "Stock Ownership" in the Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the section captioned "Stock Ownership" in the Proxy Statement.

(c) Changes in Control

Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information relating to certain relationships and related transactions and director independence is incorporated herein by reference to the sections captioned “Transactions with Related Persons” and “Director Independence” in the Proxy Statement.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information relating to the principal accountant fees and expenses is incorporated herein by reference to the section captioned “Ratification of the Independent Registered Public Accounting Firm” in the Proxy Statement.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) The financial statements required in response to this item are incorporated by reference from Item 8 of this Annual Report on Form 10-K.

(2) All financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) **Exhibits**

No.	**Description**
3.1	Articles of Incorporation of First Savings Financial Group, Inc. (1)
3.2	Articles of Amendment to the Articles of Incorporation for the Series A Preferred Stock (2)
3.3	Bylaws of First Savings Financial Group, Inc. (1)
4.0	Specimen Stock Certificate of First Savings Financial Group, Inc. (1)
10.1	Amended and Restated Employment Agreement by and among First Savings Financial Group, Inc., First Savings Bank and Larry W. Myers, dated October 7, 2009* (3)
10.2	Amended and Restated Employment Agreement by and among First Savings Financial Group, Inc., First Savings Bank and John P. Lawson, Jr., dated October 7, 2009* (3)
10.3	Amended and Restated Employment Agreement by and among First Savings Financial Group, Inc., First Savings Bank and Anthony A. Schoen, dated October 7, 2009* (3)
10.4	First Savings Bank, F.S.B. Employee Severance Compensation Plan* (4)
10.5	First Savings Bank, F.S.B. Supplemental Executive Retirement Plan* (4)
10.6	Agreement and Plan of Reorganization dated July 21, 2017 (2)
10.7	Amended and Restated Director Deferred Compensation Agreement* (1)
10.8	Subordinated Note Purchase Agreement dated September 20, 2018 (5)
21.0	Subsidiaries of the Registrant
23.0	Consent of Monroe Shine & Co., Inc.
31.1	Rule 13a-14(a)/15d-14(a) Certificate of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certificate of Chief Financial Officer
32.0	Section 1350 Certificate of Chief Executive Officer and Chief Financial Officer
101.0	The following materials from the Company’s Annual Report on Form 10-K for the year ended September 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statement of Changes in Stockholders’ Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

* Management contract or compensatory plan, contract or arrangement

(1) Incorporated herein by reference to the exhibits to the Company's Registration Statement on Form S-1 (File No. 333-151636), as amended, initially filed with the Securities and Exchange Commission on June 13, 2008.

(2) Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 17, 2011.

(3) Incorporated herein by reference to the exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 8, 2009.

(4) Incorporated herein by reference to the exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 10, 2008.

(5) Incorporated herein by reference to the exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 24, 2018.

Item 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

.	FIRST SAVINGS FINANCIAL GROUP, INC.
Date: December 14, 2018	By: /s/ Larry W. Myers Larry W. Myers President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	**Title**	**Date**
/s/ Larry W. Myers Larry W. Myers (principal executive officer)	President, Chief Executive Officer and Director	December 14, 2018
/s/ Anthony A. Schoen Anthony A. Schoen	Chief Financial Officer (principal accounting and financial officer)	December 14, 2018
/s/ John P. Lawson, Jr. John P. Lawson, Jr.	Chief Operating Officer and Director	December 14, 2018
/s/ Samuel E. Eckart Samuel E. Eckart	Director	December 14, 2018
/s/ Cecile A. Blau Cecile A. Blau	Director	December 14, 2018
/s/ Martin A. Padgett Martin A. Padgett	Director	December 14, 2018
/s/ Michael F. Ludden Michael F. Ludden	Director	December 14, 2018

/s/ Douglas A. York Douglas A. York	Director	December 14, 2018
/s/ L. Chris Fordyce L. Chris Fordyce	Director	December 14, 2018
/s/ Frank N. Czeschin Frank N. Czeschin	Director	December 14, 2018
/s/ John E. Colin John E. Colin	Director	December 14, 2018
/s/ Pamela Bennett-Martin Pamela Bennett-Martin	Director	December 14, 2018

FIRST SAVINGS FINANCIAL GROUP, INC.

CLARKSVILLE, INDIANA

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED

SEPTEMBER 30, 2018, 2017 AND 2016

FIRST SAVINGS FINANCIAL GROUP, INC.

CONTENTS

Management's Report on Internal Control over Financial Reporting

The management of First Savings Financial Group, Inc. ("the Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The system of internal control over financial reporting as it relates to the consolidated financial statements is evaluated for effectiveness by management. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed First Savings Financial Group, Inc.'s system of internal control over financial reporting as of September 30, 2018, in relation to criteria for effective internal control over financial reporting as described in the 2013 "Internal Control Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that, as of September 30, 2018, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control Integrated Framework."

Monroe Shine & Co., Inc., independent registered public accounting firm, has issued an audit report dated December 14, 2018 on the effectiveness of the Company's internal control over financial reporting.

/s/ Larry W. Myers	/s/ Anthony A. Schoen
Larry W. Myers	Anthony A. Schoen
President and	Chief Financial Officer

Chief Executive Officer

December 14, 2018

F-2

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

First Savings Financial Group, Inc.

Clarksville, Indiana

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of **First Savings Financial Group, Inc.** (the “Company”) as of September 30, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2018, and the related notes (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of September 30, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2018, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the COSO.

Basis for Opinion

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have served as the Company's, or its predecessors', auditor consecutively since at least 1968.

New Albany, Indiana
December 14, 2018

FIRST SAVINGS FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2018 AND 2017

(In thousands, except share and per share data)	2018	2017
ASSETS		
Cash and due from banks	$14,191	$11,017
Interest-bearing deposits with banks	28,083	23,242
Total cash and cash equivalents	42,274	34,259
Interest-bearing time deposits	2,501	2,435
Trading account securities, at fair value	-	7,175
Securities available for sale, at fair value	184,373	178,099
Securities held to maturity	2,607	2,878
Loans held for sale, residential mortgage ($9,952 at fair value in 2018)	10,466	727
Loans held for sale, Small Business Administration	21,659	24,908
Loans, net of allowance for loan losses of $9,323 and $8,092	704,271	586,456
Federal Reserve Bank and Federal Home Loan Bank stock, at cost	9,621	6,936
Premises and equipment	13,013	11,270
Other real estate owned, held for sale	103	852
Accrued interest receivable:		
Loans	2,687	1,907
Securities	1,600	1,491
Cash surrender value of life insurance	19,966	18,297
Goodwill	9,848	7,936
Core deposit intangibles	1,727	693
Other assets	7,690	4,814
Total Assets	$1,034,406	$891,133
LIABILITIES		
Deposits:		
Noninterest-bearing	$167,705	$96,283
Interest-bearing	643,407	573,099
Total deposits	811,112	669,382
Repurchase agreements	1,352	1,348
Borrowings from Federal Home Loan Bank	90,000	118,065
Other borrowings	19,661	-
Accrued interest payable	743	283

Advance payments by borrowers for taxes and insurance	1,218	1,212
Accrued expenses and other liabilities	10,075	7,728
Total Liabilities	934,161	798,018
STOCKHOLDERS' EQUITY		
Preferred stock of $.01 par value per share; authorized 1,000,000 shares; none issued	-	-
Common stock of $.01 par value per share; authorized 20,000,000 shares; issued 2,560,907 shares (2,559,307 at September 30, 2017); outstanding 2,292,021 shares (2,242,454 shares at September 30, 2017)	26	25
Additional paid-in capital	27,630	27,798
Retained earnings - substantially restricted	76,523	67,583
Accumulated other comprehensive income	382	4,158
Unearned stock compensation	(479)	(571)
Less treasury stock, at cost - 268,886 shares (316,853 shares at September 30, 2017)	(5,269)	(5,878)
Total First Savings Financial Group, Inc. Stockholders' Equity	98,813	93,115
Noncontrolling interests in subsidiary	1,432	-
Total Equity	100,245	93,115
Total Liabilities and Equity	$1,034,406	$891,133

See notes to consolidated financial statements.

FIRST SAVINGS FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED SEPTEMBER 30, 2018, 2017 AND 2016

(In thousands, except share and per share data)	2018	2017		2016
INTEREST INCOME				
Loans, including fees	$34,057	$27,093		$22,876
Securities:				
Taxable	3,650	3,315		3,691
Tax-exempt	3,551	3,012		2,470
Dividend income	465	313		310
Interest-bearing deposits with banks	436	184		109
Total interest income	42,159	33,917		29,456
INTEREST EXPENSE				
Deposits	4,279	2,762		2,490
Federal funds purchased	-	23		1
Repurchase agreements	3	3	&nbs	